



**FINAL REPORT ON THE FINANCIAL, PHYSICAL AND PROCESS AUDIT OF THE NIGERIA
OIL AND GAS INDUSTRY: AN INDEPENDENT REPORT ASSESSING AND RECONCILING
PHYSICAL AND FINANCIAL FLOWS WITHIN NIGERIA'S OIL AND GAS INDUSTRY -**

2015

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27th December, 2017

The Executive Secretary,
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FINANCIAL, PHYSICAL AND PROCESS AUDIT OF THE NIGERIA OIL AND GAS INDUSTRY: AN INDEPENDENT REPORT ASSESSING AND RECONCILING PHYSICAL AND FINANCIAL FLOWS WITHIN NIGERIA'S OIL AND GAS INDUSTRY - 2015

The Firm of Messer HARUNA YAHAYA & CO. (Chartered Accountants) was appointed by National Stakeholders Working Group (NSWG) of the Nigeria Extractive Industries Transparency Initiative (NEITI) as the Fifth Independent Administrator to undertake the review and reconciliation of Financial, Physical and Process Audit of the Nigeria Oil and Gas Industry for the year ended 31st December, 2015 in line with the requirements of NEITI Act 2007.

The engagement was conducted in accordance with the International Standards on Related Services (ISRS 4400), applicable to agreed-upon procedures. The procedures performed were as set out in the Terms of Reference (ToR) appended to this report as appendices.

In the ToR, it was the responsibility of the Management of the covered entities to provide us with the required information/data on production level and financial flows to the Federation Account while it is our responsibilities to carry out independent review of the information/data provided and report our observations together with recommendations to NSWG.

The methodology and approach adopted for this engagement were not designed to constitute an investigation/audit or review engagement made in accordance with International Standards on Auditing or on review of engagement. Accordingly, we do not express any assurance on the transaction beyond the explicit statement set out in this report.

This report is solely to inform the NSWG on all matters set out in our terms of reference, relates only to the subject matter specifically set out herein, and does not extend to any financial statement of any entity taken as a whole.

Yours Faithfully,

Haruna N. Yahaya, FCA

Managing Partner/CEO

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LIST OF ABBREVIATIONS AND ACRONYMS

ACRONYM	DEFINITION
AENR	Agip Energy and Natural Resources Limited
AF	Alternative Funding
AFS	Audited Financial Statements
AGO	Automotive Gas Oil
AIP	Average Interest Percentage
AMNI	Amni International Petroleum Development Company Limited
APDNL	Addax Production Development Nigeria Limited
APENL	Addax Production and Exploration Nigeria Limited
API	American Petroleum Institute (measurement for heaviness crude)
BBL	Barrels
Bbl/d	Barrels Per Day
BIS	Bank for International Settlement
BOD	Banking Operations Department
BO	Beneficial Ownership
BOJ	Best Of Judgement
BOL	Bill of Lading
BSW	Basic Sediments and Water (number of contaminants in crude)
BTU	British Thermal Unit
CA	Confidentiality Agreement
Cas	Carry Agreements
CAC	Corporate Affairs Commission
CAPEX	Capital Expenditure
CBN	Central Bank of Nigeria
CBN-MPR	Central Bank of Nigeria Monetary Policy Rate
CE	Covered Entity
CCC	Carry Capital Cost
CGT	Capital Gains Tax
CITA	Company Income Tax Act
CIT	Company Income Tax
CNL	Chevron Nigeria Limited
COMD	Crude Oil Marketing Division of NNPC
COSM	Crude Oil Stock Management

CRF	Consolidated Revenue Fund
CSU	Corporate Service Unit
CTR	Carry Tax Relief
DG	Director General
DMO	Debt Management Office
DPK	Dual Purpose Kerosene
DPR	Department of Petroleum Resources
E&P	Exploration and Production
ECA	Excess Crude Account
ECOWAS	Economic Community of West African States
EDT	Education Tax
EEZA	Exclusive Economic Zone Act
EIA	Environmental Impact Assessment
EIA	Energy Information Administration
EIC	Extractive Industry Company
EI	Extractive Industry
EOI	Expression of Interest
EITI	Extractive Industries Transparency Initiative
ESSO	Esso Exploration and Production Nigeria Limited
ERP	Enterprise Resource Planning
ES	Executive Secretary
FAAC	Federation Accounts Allocation Committee
FCT	Federal Capital Territory
FDE	Fraud and Debt Enforcement
FEC	Federal Executive Council
FES	Frontier Exploration Services
FGN	Federal Government of Nigeria
FHN	First Hydrocarbon Nigeria Limited
FIRR	Financial Internal Rate of Return
FIRS	Federal Inland Revenue Service
FMF	Federal Ministry of Finance
FOB	Free on Board
FRB	Federal Reserve Bank
GDP	Gross Domestic Product
GED F&A	Group Executive Director Finance &Account
GGM	Group General Manager(NNPC)

GID	Gas Infrastructure Development
GMD	Group Managing Director(NNPC)
GRC	Gas Regulatory Commission
GSA	Gas Sales Agreement
GSV	Gross Standard Volume
HPFO	High Pour Fuel Oil
HSE	Health, Safety & Environment
IASs	International Auditing Standards
IDSL	Integrated Data Services Limited
IFRS	International Financial Reporting Standards
IOC	International Oil Company
IPP	Independent Power Producer
ITA	Investment Tax Allowance
ITC	Investment Tax Credit
JDA	Joint Development Authority
JDZ	Joint Development Zone
JMC	Joint Ministerial Council of JDZ
JOA	Joint Operating Agreement
JVAFA	Joint Venture Alternative Funding Arrangement
JVC	Joint Venture Companies
JVCC	Joint Venture Cash Calls
JVF	Joint Venture Funding
JV	Joint Venture
KRPC	Kaduna Refinery and Petrochemical Company
LAN	Local Area Network
LC	Letter of Credit
LCV	Local Content Vehicle
LFN	Law of Federation of Nigeria
LNG	Liquefied Natural Gas
LOC	Local /Indigenous Oil Companies
LOR	London Oil Report
LPG	Liquefied Petroleum Gas
LPFO	Low Pour Fuel Oil
LR	Long Residue
MCA	Modified Carry Agreement
MMBTU	Million British Thermal Unit

MMBO	Million Barrels of Oil
MMC	Materials Movement Co-ordinator
MOR	Miscellaneous Oil Revenue
MOU	Memorandum of Understanding
MPNU	Mobil Producing Nigeria Unlimited
MPR	Ministry of Petroleum Resources
MT	Metric Tons
MV	Merchant Vessel
NAE	Nigerian Agip Exploration Limited
NAOC	Nigerian Agip Oil Company
NAPIMS	National Petroleum Investment Management Service
NBS	National Bureau of Statistics
NCDA	Nigerian Content Development Act
NCDMB	Nigerian Content Development and Monitoring Board
NCS	Nigeria Customs Service
NDDC	Niger Delta Development Commission
NDPR	Niger Delta Petroleum Resources
NEITI	Nigeria Extractive Industries Transparency Initiative
NESS	Nigerian Export Supervision Scheme
NESREA	National Environmental Standards and Regulations Agency
NETCO	National Engineering & Technical Company
NGC	Nigerian Gas Company
NGL	Natural Gas Liquid
NHT	Nigerian Hydro Carbon Tax
NIPC	Nigeria Investment Promotion Council
NIPEX	Nigerian Petroleum Exchange
NIWA	National Inland Waterways Authority
NLNG	Nigeria Liquefied Natural Gas
NNPC	Nigerian National Petroleum Corporation
NNOC	Nigerian National Oil Corporation
NOC	National Oil Company
NOSDRA	National Oil Spill Detection and Response Agency
NPA	Nigerian Petroleum Act
NPC	National Planning Commission
NPDC	Nigerian Petroleum Development Company
NSE	Nigerian Stock Exchange

NSV	Net Standard Volume
NSWG	National Stakeholders Working Group
NXP	Nigeria Export Proceeds
OAGF	Office of the Accountant General of the Federation
OEL	Oil Exploration Licence
OGJ	Oil and Gas Journal
OML	Oil Mining Lease
OPCO	Operating Company
OPCOM	Operating Committees
OPEC	Organization of Petroleum Exporting Countries
OPIC	Overseas Private Investment Corporation
OPL	Oil Prospecting Licence
OPTS	Oil Producers Trade Section
OSP	Official Selling Price
OSP	Offshore Safety Permit
PA	Petroleum Act
PAYE	Pay As You Earn
PD	Positive Development/Displacement
PEFMB	Petroleum Equalization Fund Management Board
PGS	Petroleum Geo-Services
PHCN	Power Holding Company of Nigeria
PEL	Petroleum Exploration Licence
PHRC	Port Harcourt Refining Company
PIB	Petroleum Industry Bill
PLATFORM	Platform Petroleum Limited
PMS	Premium Motor Spirit
POCNL	Philips Oil Company Nigeria Limited
POOCN	Pan Ocean Oil Corporation (Nigeria) Limited
PPMC	Pipelines and Products Marketing Company
PPPRA	Petroleum Products Pricing Regulatory Agency
PPT	Petroleum Profits Tax
PRS&IT	Planning Research, Statistics and Information Technology
PSC	Production Sharing Contract
PSF	Petroleum Support Fund
PTDF	Petroleum Technology Development Fund
PWC	Price Waterhouse Coopers

QIT	Qua Iboe Terminal
RDP	Reserves Development Project
RMAFC	Revenue Mobilization Allocation and Fiscal Commission
RP	Realisable Price
RPP	Returns Payment Processing
SAP	System Application Products (NNPC)
SC	Service Contracts
SCRPPSD	Special Committee on the Review of Petroleum Products
SDN	Sovereign Debt Note
SDS	Sovereign Debt Statement
SEECO	Sterling Oil Exploration and Energy Production Company Limited
SEPCOL	Shebah Exploration and Production Company Limited
SEPLAT	Seplat Petroleum Development Company Limited
SFDP	Satellite Field Development project
SIR	Societe Ivoireenne De Raffinage
SNEPCO	Shell Nigeria Exploration and Production Company Limited
SOF	Satellite Oil Fields
SON	Standard Organisation of Nigeria
SPDC	Shell Petroleum Development Company
SPV	Special Purpose Vehicle
SRMF	Sole Risk Marginal Field
STD	Shipping and Terminal Department
STARDEEP	Star Deepwater Petroleum Limited
STP	São Tomé e Príncipe
SURE-P	Subsidy Reinvestment Program
SWIFT	Society for Worldwide Interbank Financial Transactions
TEPNG	Total Exploration and Production Nigeria Limited
TECOM	Technical Committee
TETFUND	Tertiary Education Trust Fund
TMP	Trial Marketing Period
TOR	Terms of Reference
TUPNI	Total Upstream Nigeria Limited
USD	United States Dollar
VAT	Value Added Tax
VGO	Vacuum Gas Oil
WAGP	West African Gas Pipeline

WHT	Withholding Tax
WRPC	Warri Refining and Petrochemicals Company

NEITI AUDIT 2015 OFFICIAL EXCHANGE RATE

COMPUTED AVERAGE EXCHANGE RATE FOR 2013-2015 AS OBTAINED FROM OANDA

Year	Average Rate for Dollar (\$)	Average Rate for Naira (₦)	Average Rate for Euros (€)	Average Rate for Pounds (£)
2013	1.00	157.7079	0.75316	0.63953
2014	1.00	163.5911	0.75354	0.6072
2015	1.00	196.4301	0.90090	0.65416

Note: The above table shows the average exchange rate for the year 2013-2015 as obtained from

CBN Link: <https://www.oanda.com/currency/average>

CHAPTER 1

1 INTRODUCTION

1.1. Background to the Global EITI

The Extractive Industries Transparency Initiative (EITI) is a global initiative that promotes transparency and accountability in the global extractive sector. The EITI has evolved over the past fourteen years since the first EITI Conference in 2003 at which the EITI Principles were agreed.¹

The 2016 EITI Standard formally launched at the EITI Global Conference in Lima in February 2016, replaced the 2013 Standard. The EITI Standard covers key issues across the extractives value chain. This includes how licences and contracts are allocated and registered, who the beneficial owners of those licences are, what are the fiscal and legal arrangements, how much is produced, how much is paid to the government, where are those revenues allocated, and what is the contribution to the economy, including employment data.

1.2. Brief on EITI implementation in Nigeria

Nigeria joined EITI as a candidate country in November 2003 and became compliant with the initiative at the 5th EITI Global Conference in Paris in March 2011.² NEITI has so far produced eight petroleum reports covering 1st January 1999 to 31st December 2015.

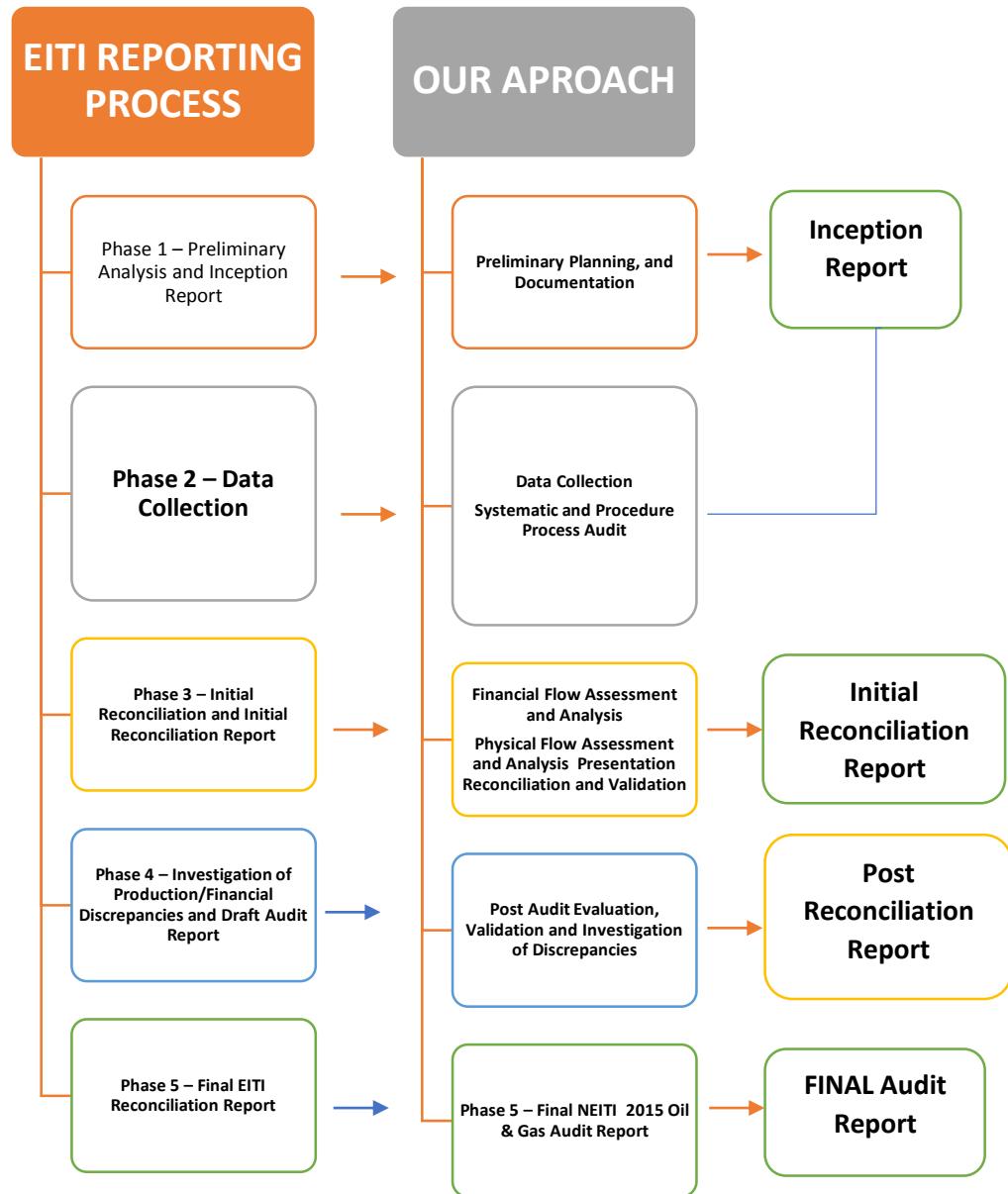
Haruna Yahaya & Co (Chartered Accountants), the Fifth Independent Administrator engaged by NEITI, conducted the 2015 Financial, Physical and Process Audit of the Nigeria Oil and Gas Industries, in compliance with ISA 4400 and the Terms of Reference as contained in Appendix 1.

¹ For a description of the EITI, see <https://eiti.org/who-we-are>

²<http://www.neiti.gov.ng/index.php/aboutus/brief-history-of-neiti>

1.3. Approach and Methodology

Our methodology and approach to auditing the data are in accordance with the EITI reporting process as illustrated in this diagram:



Standard data collection templates were sent to all who would be supplying data (companies and government) - the “Covered Entities”. The Independent Administrator reviewed and validated returned populated templates for all covered entities. The two sets of data were then analysed and compared in order to identify and reconcile any material discrepancies.

They also reviewed all corroborating documentary evidence, such as bank statements, audited financial statements, production reports, invoices and receipts to ensure accuracy and

completeness. In addition, the IA documented and reviewed all policies and procedures adopted in the preparation of financial statements by both government and companies to ensure compliance with the International Financial Reporting Standards (IFRS) and other relevant extant laws guiding the industry.

1.4. Objectives of the Audit

The main objective of this assignment is to produce the 2015 NEITI Oil & Gas Industry Audit Report in compliance with the ToR and the 2016 EITI Standard. This report is titled “Financial, Physical and Process Audit: An Independent Report Assessing and Reconciling Physical and Financial Flows within Nigeria’s Oil Industry and Gas Industry – 2015” and referred to as “the Report” in this document.

The specific objectives of the assignment are:

- i. To report on the revenue flows and investment flows amongst the Covered Entities, with transactions made by participants (both public and private) in Nigeria’s oil and gas industry.
- ii. Undertake special verification work on certain classes of transactions
- iii. Report on balances payable/receivable at the end of the audit period for certain financial flows
- iv. Reconcile the physical/financial transactions reported by payers and recipients as appropriate, as per the scope set out herein
- v. Make observations on the assignment with appropriate recommendations that will aid policymaking while considering recommendations from past reports.

Further details of the objectives are in Appendix 1 of this report.

1.5. Sources of Data

The primary source of data for this Report is the populated templates completed by both government agencies and the companies. To form an appropriate audit opinion, other sources of data obtained include internal documents generated by the covered entities such as financial statements, accounting records, bank statements, literatures on oil and gas, past NEITI reports, CBN 2015 Annual Reports, FAAC Reports, NNPC Annual Statistical bulletin, NIPC (details of pioneer status), NBS Statistical Report), DPR 2015 Annual reports as well as third-party confirmations, which were obtained where necessary.

1.6. Basis of Accounting

In line with EITI practice, a cash basis of accounting was adopted, and ISA 4400 (Engagements to perform agreed upon procedures regarding financial information) as well as the validation and reconciliation procedures contained in the TOR were also applied.

1.7. Defining Materiality

The EITI Standard for 2016 requires the Multi-Stakeholder Group (MSG) of implementing countries to discuss and agree the basis for a materiality threshold for revenue streams and agree on which companies should report. To that effect, the Technical Committee of the NSWG met on 10th August 2017 and made recommendations to Board (NSWG), which was approved on 11th August 2017. See appendix E for detail.

1.8. EITI Requirement (Materiality Threshold)

To fulfil Requirement 4.1 of the EITI Standard, The NSWG of the NEITI had to select options to determine the payment streams related to the oil and gas that would be reconciled or unilaterally disclosed to produce a comprehensive report. The NSWG determined the materiality level for the 2015 NEITI oil and gas audit using all the revenue streams that accrue to the Federal Government of Nigeria from the oil and gas sector. This was after a review of Federation Account Allocation Committee (FAAC) Reports for 2015, Medium Term Expenditure Framework (MTEF) 2014 - 2017 and past NEITI oil and gas industry reports. The revenue streams are:

1. Proceeds from the sale federation equity crude oil
2. Proceeds from the sale of domestic crude
3. Proceeds from the sale of federation equity gas
4. Proceeds from the sale of feedstock
5. Petroleum profit tax
6. Royalty (oil)
7. Royalty (gas)
8. Signature bonus
9. Gas flared penalties
10. License and acreage rental
11. Companies income tax
12. Dividends and repayment of loans by NLNG
13. Education tax
14. NESS fee
15. Pipeline transportation fees

The options considered for materiality were the significance of each revenue stream and the percentage contribution of each stream to the total revenue. The second option was chosen. The actual contribution of each stream to total revenue was computed and analyzed. The NSWG nominated a materiality of 5%; this percentage contribution to the total revenue was adopted in

determining which of the streams will be reconciled. At a threshold of 5%, 94.98% of total revenues will be reconciled. Thus, the material flows for the purposes of EITI reporting are:

1. Domestic crude
2. Federation equity & profit oil
3. Petroleum profits tax
4. Royalty oil

The NSWG also considered other benefit streams, defined and determined their materiality; these are State-owned enterprise transactions, In-kind payments, Infrastructure/barter arrangement, transportation revenue, Subnational payments and transfers, Social expenditure, and Quasi-fiscal expenditure.

Reporting entities

Based on the agreed material revenue streams (Proceeds from the sale of federation equity crude oil, proceeds from the sale of domestic crude, petroleum profits tax and royalty oil) above, the NSWG determined that all producing companies that made payment of at least \$5,000,000.00 for either royalty oil or petroleum profits tax will be considered material. The NSWG determined that at this threshold, 99.79% of petroleum profits tax and 98.60% of royalty oil would be reconciled for EITI reporting. The NSWG agreed further that NNPC as the entity responsible for proceeds from the sale of federation equity crude oil and domestic crude would be included in this category.

These entities are:

Material Exploration and Production Companies:

1. Addax Petroleum Development (Nigeria) Limited
2. Addax Petroleum Exploration(Nigeria) Limited
3. AITEO
4. Amni International Petroleum Development Company Limited
5. Chevron Nigeria Limited
6. ConOil Producing Limited
7. Continental Oil and Gas Company Limited
8. Elcrest Exploration and Production
9. Midwestern Oil and Gas Company Plc
10. Mobil Producing Nigeria Unlimited
11. Esso Exploration and Production Nigeria Limited
12. New Cross Exploration & Production
13. ND WESTERN
14. NECONDE

15. Moni Pulo Limited
16. Nigerian Agip Oil Company Limited
17. Nigerian Petroleum Development Company Limited
18. OANDO HYDROCARBON LTD
19. Oriental Energy Resources Limited
20. Petrobras Nigeria Limited
21. Shoreline Natural Resources
22. Sterling Oil Exploration & Energy Production Co. LTD
23. Seplat Petroleum Development Company
24. Shell Nigeria Exploration and Production Company Limited
25. Shell Petroleum Development Company
26. Star Deep Water Petroleum Limited
27. Statoil
28. Total Exploration & Production Nigeria Limited
29. Total Upstream Nigeria Limited

Receiving Government Agencies are:

1. Nigerian National Petroleum Corporation
2. Central Bank of Nigeria
3. Federal Inland Revenue Service
4. Department of Petroleum Resources

Other Government Agencies:

1. Nigeria Sao Tome Joint Development Authority
2. Petroleum Products Pricing Regulatory Agency
3. Office of the Accountant General of the Federation
4. Niger Delta Development Commission
5. Federal Ministry of Finance
6. Nigerian Content Development and Monitoring Board

The above set materiality is to meet the EITI standard.

NEITI while adhering fully to the EITI standard is also bound by the NEITI Act 2007. The Act mandates NEITI in;

- a) Section 2(c) –To eliminate all forms of corrupt practices in the determination, payments, receipts and posting of revenue accruing to the Federal Government from extractive industry companies, and
- b) Section 3(f) – To monitor and **ensure that all payments** due to the Federal Government **from all extractive industry companies**, including taxes, royalties, dividends, bonuses, penalties, levies and such like, are duly made.

The NSWG considered its responsibilities as defined in the NEITI Act 2007 and decided that to every extent possible, all revenue streams (List on Sec 1.11) should be reconciled. To establish the companies to be covered under the NEITI Act 2007, the NSWG further considered that proceeds from the sale of government equity gas and feedstock, royalty (gas), gas flared penalties, company income tax, education tax and NESS fees would only be paid by exploration and production companies. However, holders of mineral licenses that may not be producing will pay for signature bonus, license and acreage rentals. The NSWG also noted (from its experience with past NEITI oil and gas reports), that affiliate companies of exploration and production companies make payments of either of the established revenues on behalf of their affiliates. These could be companies not necessarily incorporated to engage in exploration and production of oil and gas. Consequently, the NSWG determined that all producing companies that make any payments of revenues listed (List on Sec 1.11) and the corresponding receiving government entities will be covered by the report. Also, all companies that make payments in either of the revenue streams, including signature bonus, or license and acreage rentals (and are not producing) to the designated Central Bank of Nigeria accounts will be unilaterally disclosed.

Below is the list of additional companies to be reconciled under the NEITI Act:

1. Allied Energy Resources (Nigeria) Limited/CAMAC
2. Atlas Petroleum (International) Limited
3. Britannia-U Nigeria Limited
4. Dubri Oil Company Limited
5. Eroton
6. Energia Limited
7. Express Petroleum and Gas Company Limited
8. Esso Exploration and Production (Offshore East) Nigeria Limited
9. First Hydrocarbon Nigeria Ltd
10. Frontier Oil Limited
11. NETWORK E&P
12. Newcross Petroleum
13. Nigerian Agip Exploration Limited

14. Niger Delta Petroleum Resources Limited
15. OANDO OML 125&134 LTD
16. OANDO P&D COMPANY LTD
17. OANDO QUA IBO LTD
18. SOUTH ATLANTIC PETROLEUM
19. Sheba Exploration and Production Co. Ltd
20. Pillar Oil Limited
21. Platform Petroleum Limited
22. Prime Exploration
23. Pan Ocean Oil Corporation (Nigeria)
24. Universal Energy
25. Walter Smith Petroman Oil Limited

List of companies to be unilaterally disclosed:

1. ACCUGAS LIMITED
2. AFREN ENERGY RESOURCES LIMITED
3. AMALGAMATED
4. CAVENDISH
5. CAYMAN LIMITED
6. CCC OIL & GAS LIMITED
7. EMERALD
8. GYNIA HOLDING LIMITED
9. HOMELAND & OVERSEAS LIMITED
10. NEWTON ENERGY LIMITED
11. SAHARA ENERGY
12. SASOL EXPLORATION & PRODUCTION LTD
13. SUMMIT OIL & GAS LIMITED
14. SUNTRUST OIL COMPANY LTD
15. TEXACO NIGERIA OUTER SHELF LIMITED 2015

NSWG Assessment of comprehensiveness

To ensure the comprehensiveness of EITI reporting, the NSWG reviewed data submitted by material companies to determine non-complying companies. The NSWG determined that all material companies provided data as required for the conduct of this exercise. Furthermore, analysis of the data showed that there was a nil difference in royalty oil and petroleum profit tax paid by companies and government receipts for all material companies for the year. The NSWG confirms that all material companies that made no payment for either category of payment had

legitimate reasons ranging from Pioneer Status, Cost Recovery, Water Level and a company that started production in 2015 and paid its PPT in 2016. A detailed table showing all these and more is in the **APPENDIX E**.

Table 1.2 Financial Flows

REVENUE STREAMS	AMOUNT (PERCENTAGE OF TOTAL)	GOVERNMENT AGENCY RECIPIENT	FOR RECONCILIATION?
FINANCIAL FLOW			
	US \$		
Federation Equity & Profit Oil	7,597,104.00	(30.64 %) NNPC-COMD	Yes
Domestic Crude	7,775,228.00	(31.36%) NNPC-COMD	Yes
Gas	262,688.00	(1.06 %) NNPC-COMD	No
Feed Stock	1,089,827.00	(4.40 %) NNPC-COMD	No
Petroleum Profit Tax (PPT)	5,389,868	(21.74 %) FIRS	No
Royalty (Oil)	2,784,534	(11.23 %) DPR	Yes
Royalty (Gas)	107,160	(0.43 %) DPR	No
Signature Bonus	902,720	(3.64 %) DPR	No
Gas Flared Penalties	12,683	(0.05 %) DPR	No
Licence and Acreage Rental	1,006	(0.00 %) DPR	No
Companies Income Tax (CIT)	603,499	(2.43 %) FIRS	No
Dividends & Repayment of Loans by NLNG	1,076,012	(4.34 %) NNPC-COMD	No
Contribution to NDDC	387,621	(1.56 %) NDDC	No
Education Tax	667,770	(2.69 %) FIRS	No
NCDMB 1% Levy	135,828	(0.55 %) NCDMB	No
NESS Fee	47,504	(0.19 %) CBN	No
Pipeline Transportation	24,610	(0.10 %) NNPC-COMD	No

NON-FINANCIAL FLOWS (IN-KIND)				
Petroleum Profit Tax (PPT) - PSCs/MCA	(2,956,542)	(-11.93 %)	FIRS	YES
Royalty (Oil) - PSCs/MCAs	(1,097,705)	(-4.43 %)	DPR	YES
MCA Gas CIT/EDT	(16,831)	(-0.07 %)	FIRS	YES
MCA Royalty (Gas)	(3,649)	(-0.01 %)	FIRS	YES
Licence and Acreage Rental	(138)	(0.00 %)	DPR	No

1.8.3 Auditors Opinion

We have reviewed the EITI requirements for materiality threshold as applied by NSWG in 2015 Oil and Gas Audit and hereby confirm that:

- The consideration made by NSWG on the companies and revenue streams are a true and fair representation of the flows in the Nigerian oil and gas sector.
- We have obtained all information and explanations, which to the best of our knowledge and belief were necessary for this Report.
- There is a nil difference in royalty oil and petroleum profit tax paid by companies and government receipts for all material companies for the year.
- All material companies provided Data and as such, this report is comprehensive and is a fair representation of transactions in the sector in 2015.

1.9. Data Quality and Assurance

1.9.1. Objective of Data Quality

The objective of data quality is to establish and maintain a system of quality control to give reasonable assurance that:

- i. The information provided by covered entities is accurate and complete
- ii. The process of obtaining information is credible and comprehensive

A credible Independent Administrator (Auditor) applying International Auditing Standards reconciled the payments and revenues.

1.9.2 Companies

Under the Nigerian Companies and Allied Matters Act (CAMA) 1990, all registered companies must keep proper books of accounts, prepare their Audited Financial Statements (AFS), and ensure its publication. This is contained in Part XI of the Act.³

All registered companies are also required to file annual reports/returns with the Corporate Affairs Commission (CAC), as contained in part XII of the Act, while companies listed on the Stock Exchange (that is public companies) are required to submit their Audited Financial Statements (AFS) to the Securities and Exchange Commission (SEC) in addition to publishing it.⁴

The Generally Accepted Accounting Principles (GAAP) was previously in practice in Nigeria. It was replaced with the International Financial Reporting Standards (IFRS). The IFRS was adopted fully in 2012. Reporting of AFS by companies is now made in line with IFRS.⁵

1.9.3 Government Agencies

Based on section 48 and 49 of the Fiscal Responsibility Act and Financial Regulations, the Federal Government, including Ministries, Departments and Agencies (MDAs) are to prepare financial statements for the period of January to December each year to be audited by the Auditor General of the Federation (AuGF) and submitted to the National Assembly.

The MDAs use cash basis accounting. Most federal agencies have now migrated to International Public Sector Accounting Standards (IPSAS), which is an international standard.

Section 85 (1-6) of the Constitution of Federal Republic of Nigeria 1996 provides that the Public Accounts of the Federation and of all Ministries, Departments and Agencies shall be audited by the Auditor General, who then submits a report to the National Assembly.

1.9.4 Procedures Adopted to ensure Quality Data

To ensure that data quality from the covered entities were in conformity with the EITI standard, the Independent Auditor took the following steps:

Oil and Gas

- i. Obtained an Audited Financial Statements (AFS) from both Government Agencies and Companies covered in the Audit.
- ii. Obtained a letter of attestation from Companies with AFS stating that, data provided on cash basis is in conformity with their AFS prepared on accrual basis.

³ <http://www.nigeria-law.org/CompaniesAndAlliedMattersActPartXI-XIV.htm>

⁴ <http://sec.gov.ng/regulation/rules-codes/>

⁵ <http://www.financialreportingcouncil.gov.ng>

⁶ www.nigeria-law.org/constitutionofthefederalrepublicofnigeria.htm

- iii. Obtained a letter of attestation from Government Agencies stating that, data provided is in conformity with their AFS prepared on cash basis.
- iv. For government entities without AFS, a letter of attestation signed by senior officer of the organization was considered:
Consequently, for completeness of Information, the following measures were adopted:
 - During reconciliation, company payments are reconciled against government receipts.
 - Representatives of government agencies to sign-off on reconciled positions with each paying entity affirming the correctness of data.
 - The data from the companies that have confirmed their records, the AFS was reconciled to the receiving government agency.

This process was to ensure quality assurance on government and company's data.

Assessment of data quality

To ensure data quality for material companies, the Audited Financial Statements (AFS) and letter of attestation were obtained certifying that data submitted and validated (on cash basis) are consistent with source documents and are in conformity with the Audited Financial Statements of the company (that is prepared on accrual basis). Twenty-six (26) of thirty (30) material companies submitted their AFS representing 86.67%. However, only 14 material companies provided letters of attestation. NSWG investigations show that it appears that there was some resistance from the companies toward providing letters of attestation. In the opinion of most, they were not convinced of the need for a letter of attestation after providing an AFS. The NSWG resolves to mandate the IA to provide more enlightenment to the companies to achieve a better response going forward.

In view of above, the NSWG is satisfied with the comprehensiveness and reliability of the reconciled financial data as sufficient for the purpose of the EITI process

1.9.5. Auditors Opinion

We have reviewed the legal/statutory requirements for both companies and MDAs with regard to quality of data/information provided for 2015 Oil and Gas Audit and hereby express our opinion as follows:

- ✓ Information in Appendix 4 is a true representation of level of compliance with statutory requirements on data quality by Companies and Government Agencies
- ✓ The data/information provided by the Companies and Government Agencies as shown in table 2.7 are to the best of our knowledge and belief necessary for the Report

- ✓ We recommend that for subsequent audits, the Auditor General of the Federation should provide an attestation letter for all government agencies. This is to provide additional level of assurance for data quality.

1.10. Covered Entities

A total of (76) Seventy-Six entities, comprising Government Agencies, Oil and Gas Companies and Power Generating Companies were covered by the audit as contained in Appendix 3 of this report. Table 1.3 below shows entities covered in the audit based on categories.

Table 1.3: Entities covered in the audit based on categories

S/N	Numbers
1	Government Agencies
2	Joint Ventures (JV)
3	Production Sharing Contracts (PSC)
4	Marginal Field (MF)
5	Sole Risk (SR)
6	Service Contracts (SC)
7	Power Generating Companies
8	Refineries
9	NLNG and Nigeria Gas Company (NGC)

1.11. Summary of Financial Flows

The comprehensive Financial Flows covered are as enumerated below:

- Federation Equity and Profit Oil
- Domestic Crude Allocation
- Gas Sales
- Feedstock Sales
- Petroleum Profits Tax (PPT)
- Royalty Oil
- Royalty Gas
- Company Income Tax (CIT) on Gas
- Education Tax (EDT)
- Signature Bonus
- NESS Fee
- NDDC Levy
- NCDMB Payments
- Gas Flared Penalties

- Licence and Acreage Rental
- Pipeline Transportation Fee
- Dividend, Interest and Loan Repayment by NLNG

1.12 Summary of Physical Flows and Process Procedures

The audit considered the following Physical Flows and Process Procedures as enumerated below:

- Production and Utilization of gas
- Product Importation and Distribution
- Production and Terminal Balances.
- Crude Lifting and Fiscal Value
- Production arrangements and licensing
- Process for Pricing of Federation Equity Crude Oil
- Review of Systems and Procedures
- Review of Remediation issues
- Recommendations on the review process

CHAPTER 2

2 SUMMARY OF AGGREGATED FINANCIAL FLOWS

2.1 Introduction

The Report revealed total revenue to government of **\$24,790,797**. These financial flows are summarised in Table 2.1 below and constitute total revenue accruing from the petroleum sector to the Federation and other sub-national entities in 2015. Section 8 of this Report contains the detailed narrative of these payments.

This Report also considered other non-financial flows i.e. “in-kind” transactions used in the settlements of royalties, PPT, concession rent liabilities as well as carried party carry cost through crude oil allocations. This chapter also discuss other financial flows such as NLNG Payments, Cash calls, Modified Carrying Agreement (MCA) and subsidy payments. The summary of the aggregated financial flows for the period covered is shown below.

Table 2. 1 Summary of 2015 Financial Flows

S/N	TABLE REF.	2015
		\$'000
Sale of Crude Oil and Gas		
Federation Equity & Profit Oil	6.5	7,597,104
Domestic Crude Sales	6.5	7,775,228
Gas Sales	6.7	262,688
Feedstock Sales	6.8	1,089,827
Total Sales of Crude Oil and Gas (i)		16,724,847
<i>Less: PSCs/MCAs in Kind Payments¹</i>		
Petroleum Profit Tax (PPT) - PSCs/MCAs	2.4	(2,956,542)
Royalty (Oil) - PSCs/MCAs	2.4	(1,097,705)
MCA Gas CIT/EDT	2.4	(16,831)
MCA Royalty (Gas)	2.4	(3,649)
Concession Rental	2.4	(138)

	Total PSCs/MCAs In-Kind Payments (ii)		(4,074,865)
	Sub-Total (A) = (i) - (ii)		12,649,982
	Other Specific Financial Flows		
	Petroleum Profit Tax (PPT)	8.1	5,389,868
	Royalty (Oil)	8.3	2,784,534
	Royalty (Gas)	8.13	107,160
	Signature Bonus ²	8.12	902,720
	Gas Flared Penalties	8.1	12,683
	License and Acreage Rental	8.16	1,006
	Total Confirmed Flows (iii)		9,197,971
	Other Flows to Federation		
	Company Income Tax	8.15	603,499
	Total Other Flows to Federation (iv)		603,499
	Sub-Total (B) (iv+iii)		9,801,470
	Total Flows to Federation C=(A+B)		22,451,452
	Other Flows		
	Dividends, Interest & Repayment of Loans by NLNG	8.5	1,076,012
	Total Other Flows (D)		1,076,012
	Flows to Other Entities		
	Contribution to NDDC	8.8	387,621
	Education Tax	8.2	667,770
	NCDMB 1% Levy	8.9	135,828
	NESS Fee ³	8.17	47,504
	Pipeline- Transportation Fee ⁴	8.7	24,610
	Total Flows to Other Entities (E)		1,263,333
	Grand Total (C+D+E)		24,790,797

Notes:

1. The non-financial flows refer to in-kind transactions reported by companies with Production Sharing Contracts for the settlement of PPT, royalty and licence and acreage rental by means of crude oil and gas allocations rather than direct financial payments.
2. The signature bonus received in 2015 relates to licence renewal paid by 10 companies totaling **\$902,720,250**, which is higher than what was reported by the entities. Details are in section 8 of this report.
3. Evidence of bank receipts from the Companies was used to validate the amounts reported by the entities as against CBN records. Section 8.14 of this report contains the details.
4. Pipeline transportation fee is the federation share of the fee paid by other oil and gas operators for the use of the JV pipelines.

2.2 Petroleum Revenues in the past Five Years

Table 2.2 below shows the trend analysis of petroleum revenues to government from 2011 to 2015. There was a steady decline in revenues from 2011 to 2014, with the sharpest drop of 55% from 2014 to 2015.

Table 2.2 Petroleum Revenues in the past Five Years

YEAR	2011	2012	2013	2014	2015	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Grand Total	68,442,328	62,944,356	58,079,681	54,555,279	24,790,797	268,812,441
DIFFERENCE		(5,497,972)	(4,864,675)	(3,524,402)	(29,764,482)	
% CHANGE	0	-8%	-8%	-6%	-55%	

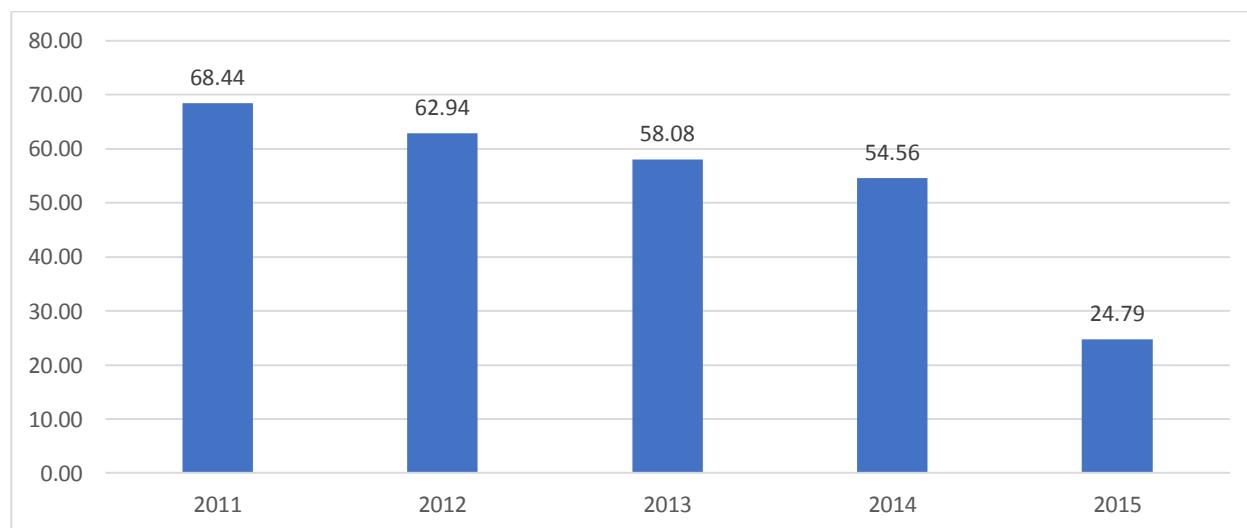


Figure 2.1: Summary of Financial Flows(\$bill.)

Table 2.3: Comparative Analysis of Revenues from 2011 to 2015

	2011	2012	2013	2014	2015
Sale of Federation Crude Oil and Gas					
Federation Equity & Profit Oil	24,760,831	21,611,186	19,050,886	18,196,369	7,597,104
Domestic Crude	18,363,100	18,147,751	17,435,818	15,674,817	7,775,228
Gas	610,857	489,033	616,006	597,025	262,688
Feed Stock	1,825,617	1,845,370	1,357,525	1,682,650	1,089,827
Sales of Crude Oil and Gas (Total)	45,560,405	42,093,340	38,460,235	36,150,861	16,724,847
Less: PSCs/MCAs in Kind Payments					
Petroleum Profit Tax (PPT) - PSCs/MCAs	8,234,874	10,759,802	10,273,854	7,094,219	2,956,542
Royalty (Oil) - PSCs/MCAs	601,413	959,781	993,167	2,328,222	1,097,705
MCA Gas CIT/EDT			83,954	22,437	16,831
MCA Royalty (Gas)			18,343	68,952	3,649
Licence and Acreage Rental	-	-	-	-	138
PSCs/MCAs in Kind Payment (Total)	8,836,287	11,719,583	11,369,318	9,513,830	4,074,865
Sub-Total (A)	36,724,118	30,373,757	27,090,917	26,637,031	12,649,982
Other Specific Financial Flows					
Petroleum Profit Tax (PPT)	18,763,688	18,851,676	17,591,512	15,697,977	5,389,868
Royalty (Oil)	6,041,396	6,725,282	6,182,319	6,311,102	2,784,534
Royalty (Gas)	90,076	107,601	119,093	135,030	107,160
Signature Bonus	216,146	-	12,500	142,249	902,720
Gas Flared Penalties	22,487	24,580	18,475	18,693	12,683
Licence and Acreage Rental	2,225	2,895	133,750	2,628	1,006
Total Confirmed Flows	25,136,018	25,712,034	24,057,649	22,307,679	9,197,971
Other Flows to Federation					
Companies Income Tax (CIT)	273,481	441,048	556,050	521,827	603,499
Value Added Tax (VAT)	1,005,030	770,834	965,521	619,779	-
Total Other Flows to Federation	1,278,511	1,211,882	1,521,571	1,141,606	603,499
Sub-Total (B)	26,414,529	26,923,916	25,579,220	23,449,285	9,801,470
Total Flows to Federation (A+B)	63,138,647	57,297,675	52,670,137	50,086,316	22,451,452
Other Flows					
Dividends & Repayment of Loans by NLNG	2,537,503	2,795,531	1,289,592	1,420,406	1,076,012
PAYE	13,120	87,918	168,524	24,170	-
Withholding Tax (WHT)	918,685	794,880	991,693	697,095	-
Total Other Flows	3,469,308	3,678,329	2,449,809	2,141,671	1,076,012
Flows to State and Local Govt					
Withholding Tax (WHT)	12,045	11,314	17,740	857	-

PAYE	586,001	197,667	556,030	366,425	-
Dividends & Repayment of Loans by NLNG		36	1,089	-	-
Total Flow to States	598,046	209,017	574,859	367,282	-
Flows to Other Entities					
Contribution to NDDC	703,292	558,808	562,921	846,081	387,621
Education Tax	533,035	1,120,421	1,477,764	605,597	667,770
NCDMB 1% Levy	-	80,010	115,925	153,924	135,828
NESS Fee	-	-	63,100	38,875	47,504
NIWA Levy	-	96	221	-	-
Cabotage Levy	-	-	164,945	26,401	-
NIMASA Levy-Gross Freight	-	-	-	262,082	
Pipeline Transportation	-	-	-	27,050	24,610
Total Flows to Other Entities	1,236,327	1,759,335	2,384,876	1,960,010	1,263,333
Grand Total	68,442,328	62,944,356	58,079,681	54,555,279	24,790,797

The revenue flows to the Federation witnessed a continuous downward trend, where the total streams of revenue decreased from **\$68.442 billion** in 2011 to **\$24.791 billion** in 2015 representing a 63.78% decline. This significant drop in revenue flows from the sector was largely due to the following reasons:

- Fall in global prices of crude oil in 2015
- Instability in the Niger Delta⁷
- Deferred production and Crude losses due to destruction of production facilities and pipeline breakages
- Crude Theft and militancy⁸

2.3 Summary of Proceeds of Sales of Federation Equity Crude Oil and Gas

The Federation Equity Crude Oil and Gas revenue consists of export crude sale, FIRS crude (taxed oil revenue), DPR crude oil (payment on royalties, licences and acreage rent), MCA (alternative funding arrangements with JV Operators), Reserve Development Project, domestic crude allocation, gas sales⁹ and gas feedstock sales¹⁰. See detailed explanations in chapter 6 of this report.

⁷ <http://sweetcrudereports.com/2016/09/09/nigerias-oil-bill-on-hold-due-to-delta-unrest/>

⁸ <http://sweetcrudereports.com/2016/12/30/nigerias-q3-crude-oil-production-declined-by-12-neiti/>

⁹ Gas sales are exported gas by NNPC sold to off takers

¹⁰ Feedstock are gas supplies from select JV to NLNG

Table 2. 4: Summary of Sales Proceeds of Federation Equity Crude Oil and Gas

2015 AGGREGATED FLOW ON SALES OF FEDERATION CRUDE OIL AND GAS			
S/N		Amount \$'000	% of Contribution
A	Federation Equity & Profit Oil		
I	Export Crude	3,163,685	18.92%
II	FIRS Crude Oil	2,956,542	17.68%
III	DPR Crude Oil	356,472	2.13%
IV	MCA (Alternative Funding)	761,851	4.56%
V	Reserve Development Project/QIT	358,554	2.14%
	Sub Total	7,597,104	45.42%
B	Domestic Crude Sales	7,775,228	46.49%
C	Gas Sales	262,688	1.57%
D	Gas Feedstock	1,089,827	6.52%
	Total	16,724,847	100%

Source: 2015 COMD Validated Template

The table above indicates **\$16. 725 billion** as the total financial flows from the sale of crude oil and gas in 2015. Domestic crude sales constitute 46% (**\$7.775 billion**), while federation's direct sales, feedstock and gas sales constitute 45.42% (**\$7.775 billion**), **6.52 % (\$1.090 billion)** and **1.57% (\$0.263 billion)** respectively.

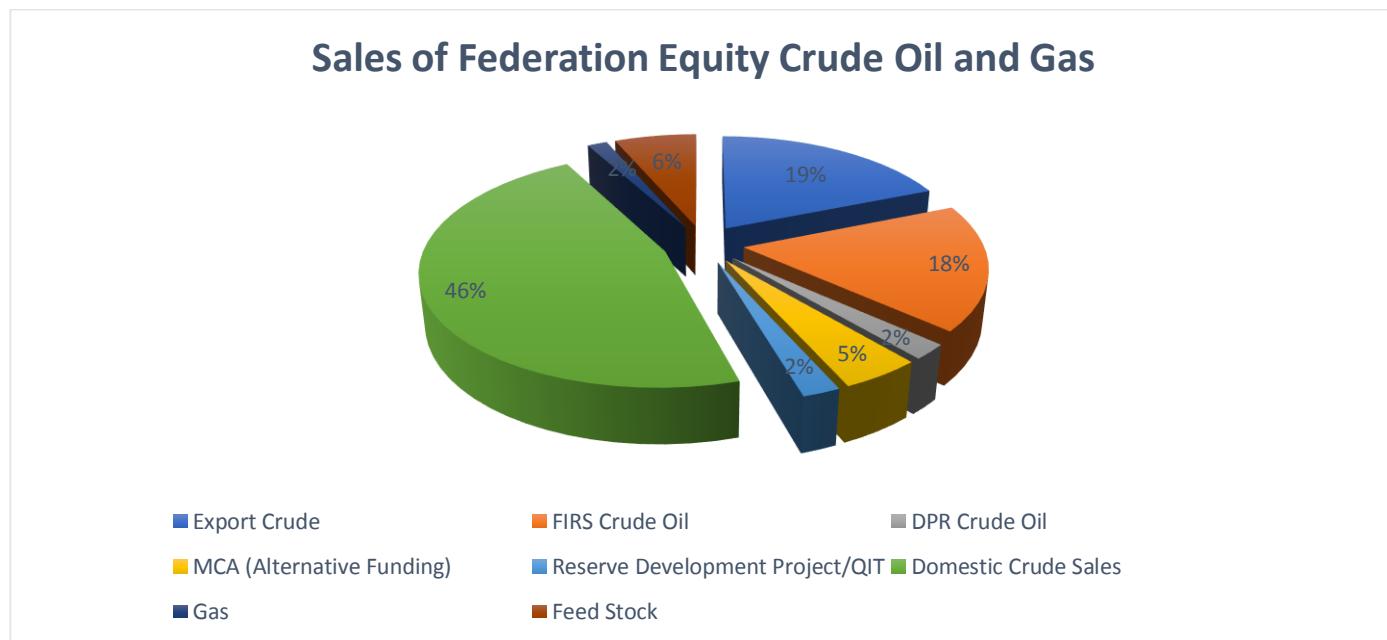


Figure 2.2: Summary of Proceeds of Sales of Federation Equity Crude Oil and Gas

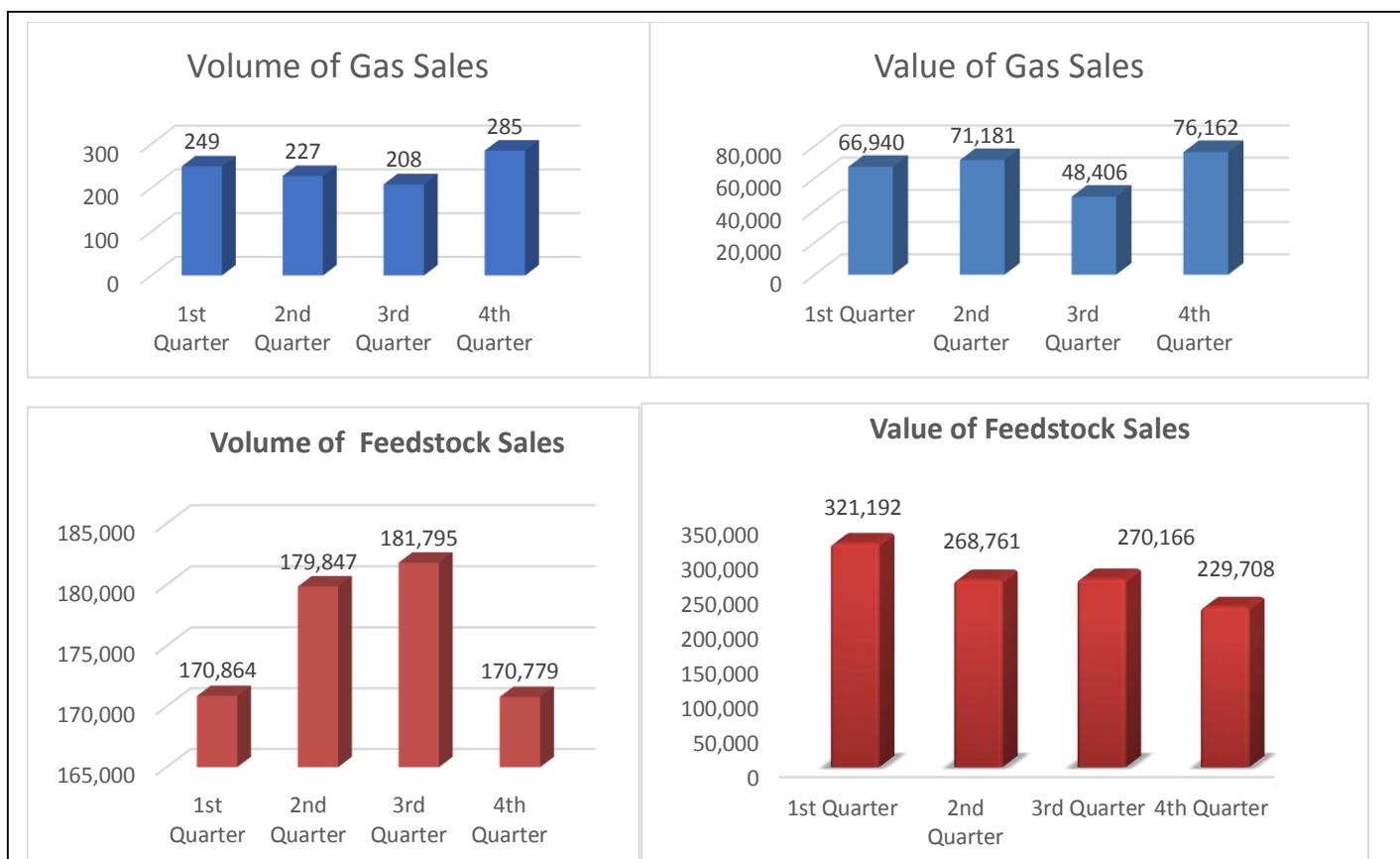
2.4. Summary of Volumetric Gas sales and Feedstock

The total sale of Gas in 2015 was **\$1.353 billion** as presented in table 2.5 below. The total sales of Gas and Feedstock are **\$0.263 billion** and **\$1.090 billion** respectively, while their corresponding volumes are 968,000 Mt and 703,286mmbtu respectively as described in Table 2.5 below.

Table 2.5. Summary of Volumetric Gas and Feedstock Sales

	2015 Gas Sales		Feedstock Sales		Total Sales
	Volume	Value	Volume	Value	Value
	mmbtu'000	US\$'000	mmbtu '000	US\$'000	US\$'000
1st Quarter	249	66,940	170,864	321,192	388,132
2nd Quarter	227	71,181	179,847	268,761	339,942
3rd Quarter	208	48,406	181,795	270,166	318,572
4th Quarter	285	76,162	170,779	229,708	305,870
Total	968	262,688	703,286	1,089,827	1,352,515

Figure 2.3.: Summary of Gas and Feedstock Sales



2.5 Company's Level Financial Flows

The total reconciled flows show that government received **\$12,116,204,401** while company's payment was **\$ 12,135,468,805** creating an unreconciled difference of **\$28,499,426**. These differences came about as a result of reconciliation differences in Signature Bonus, Education Tax, Pipeline Transportation Fee and NDDC Levy. Government record of **\$12,116,204,401** includes unilateral disclosure of company's payment of **\$9,235,022**

Table 2.6.: Summary of Company Level Financial Flows

REVENUE FLOW TO THE FEDERATION				
S/N	FINANCIAL FLOW	GOVERNMENT	COMPANY	DIFFRENCE
		USD	USD	USD
1	CIT PAYMENT	602,809,616	602,809,616	-
	CIT PAYMENT (UNILATERAL DISCLOSURE)	689,219		
2	EDUCATIONAL TAX	667,516,657	667,515,657	1,000
	EDUCATIONAL TAX (UNILATERAL DISCLOSURE)	253,485		
3	GAS FLARE PENALTY	12,683,078	12,683,078	-
4	LICENSE AND ACREAGE RENTAL	919,463	919,463	-
	LICENSE AND ACREAGE RENTAL (UNILATERAL DISCLOSURE)	86,965		
5	NCDMB	135,827,809	135,827,809	-
6	NDDC	386,462,492	387,353,394	(890,902)
	NDDC (UNILATERAL DISCLOSURE)	1,158,319		
7	NESS FEE	47,503,586	47,503,586	-
8	NLNG DIVIDEND, LOAN REPAYMENT & INTEREST	1,076,011,598	1,076,011,598	-
9	PIPELINE TRANSPORT FEE		24,609,524	(24,609,524)
10	PPT PAYMENT	5,383,715,225	5,383,715,225	-
	PPT PAYMENT (UNILATERAL DISCLOSURE)	6,152,224		
11	ROYALTY GAS	107,160,103	107,160,103	-
12	ROYALTY OIL	2,784,139,502	2,784,139,502	
	ROYALTY OIL (UNILATERAL DISCLOSURE)	394,810		
13	SIGNATURE BONUS	902,220,250	905,220,250	(3,000,000)
	SIGNATURE BONUS (UNILATERAL DISCLOSURE)	500,000		
	TOTAL	12,116,204,401	12,135,468,805	(28,499,426)

Table 2.7.: Reconciliation of Company Level Financial Flows

S/N	COMPANY NAME	EDT	ROYALTY OIL	PPT	NDDC	NCDMB	GAS FLARE PENALTY	ACREAGE	NESS	CIT	ROYALTY	SIGNATURE BONUS	Pipeline Trans Fee	NLNG Dividend	TOTAL
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
1	ADDAX (APDNL)	21,379	66,603	37,977	13,901	3,693	2,789	-	576	-	-	-	-	-	146,919
2	ADDAX (APENL)	7,096	62,408	35,585	23,696	2,218	155	47	198	-	-	-	-	-	131,403
3	AENR	3,811	-	-	937	155	-	-	155	12,359	-	-	-	-	17,418
4	AITEO	-	17,243	-	-	-	-	-	24,695	-	-	-	-	-	41,938
5	ALLIED*	-	2,085	-	-	-	-	-	-	-	-	-	-	-	2,085
6	AMNI	1,732	13,505	7,221	1,498	440	109	-	346	-	-	-	-	-	24,851
7	ATLAS	-	4,383	-	-	-	46	12	-	-	1,000	-	-	-	5,441
8	BRITTANIA-U	-	300	-	-	-	-	-	-	-	-	-	-	-	300
9	CAYMAN LIMITED	-			-	-	-	-			16,080				16,080
10	CHEVRON (CNL)	43,156	320,245	202,825	24,709	10,302	995	123	1,887	82,236	19,775	477,840	-	-	1,184,093
11	CON OIL	1,228	3,223	17,445	-	-	7	49	-	-	-	-	-	-	21,952
12	CONTINENTAL	658	24,623	10,045	-	-	82	25	-	-	-	-	-	-	35,433
13	DUBRI*	5,471	593	-	25	-	79	-	4	-	-	-	-	-	6,172
14	ELCREST*	-	7,968	-	-	-	-	-	21	-	-	-	-	-	7,989
15	ENERGIA*	7	1,909	-	1,213	125	262	-	116	100	-	-	-	-	3,732
16	EROTON	-	-	-	-	-	-	-	24	-	-	-	-	-	24
17	EXPRESS*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	FHC*	-	2,293	200	-	-	-	-	18	-	-	-	-	-	2,511
19	FRONTIER	-	163	-	-	243	-	-	-	-	-	-	-	-	406
20	GYNIA HOLDING LIMITED	-			-	-	-	-			40,250				40,250
21	MIDWESTERN	-	20,674	8,937	-	930	119	-	117	-	-	-	-	-	30,777
22	EEP NL	60,703	117,661	647,534	33,745	12,275	1,271	-	-	-	-	-	-	-	873,188
23	EEP NL(OE)L	53,709	-	-	31,223	6,894	928	23	787	-	-	116,000	-	-	209,564
24	MOBIL PRODUCING	85,920	718,599	1,136,548	48,185	9,761	1,106	49	4,192	124,960	-	-	-	-	2,129,320
25	MONI PULO	355	8,393	1,858	-	69	27	-	-	-	-	-	-	-	10,702
26	NAE*	4,225	-	-	20,695	4,820	1,750	-	464	-	-	-	-	-	31,954
27	NAOC*	11,935	134,015	124,280	6,889	6,272	411	95	711	83,715	14,564	27,328	-	-	410,215
28	ND WESTERN*	-	14,250	-	-	-	-	-	209	-	-	-	-	-	14,459
29	NDPR	52	2,250	72	-	222	143	-	-	751	-	-	-	-	3,489
30	NECONDE*	-	7,968	-	-	-	-	-	99	-	-	-	-	-	8,067
31	NETWORK*	-	946	-	-	-	33	-	-	-	-	-	-	-	979
32	NEWCROSS	-	180	80	-	-	96	10	-	-	-	-	-	-	366
33	NEWCROSS E&P NIG LTD	-	17,243	-	-	-	-	-	-	-	-	-	-	-	17,243
34	NPDC*	-	301,194	400,000	7,447	5,779	-	-	-	-	-	-	-	-	714,421
35	Oando 125&134*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
36	OANDO HYDROCARBONS*	5,697	18,748	2,000	-	10	50	-	268	16,544	-	-	-	-	43,317

37	Oando QIL*	-	-	-	-	-	-	-	-	-	-	-	-	-	
38	OPDC*	-	-	-	-	-	-	-	-	-	-	-	-	-	
39	ORIENTAL	-	64,644	-	764	-	55	-	379	-	-	-	-	65,842	
40	PAN OCEAN	-	1,250	570	-	-	-	-	-	-	-	-	-	1,820	
41	PETROBRS*	17,560	-	104,481	-	20	-	-	1,012	-	-	-	-	123,073	
42	PILLAR	207	1,236	411	516	55	11	-	34	-	-	-	-	2,469	
43	PLATFORM*	243	150	-	450	35	81	-	31	2,003	-	-	-	2,993	
44	PRIME*	-	293	-	-	-	-	-	90	-	-	-	-	383	
45	SAPETRO*	-	-	-	-	-	-	39	536	-	-	-	-	575	
46	SEPLAT	-	105,368	-	-	-	-	54	642	-	-	-	-	106,064	
47	SHEBA*	-	-	-	-	-	-	-	-	-	-	-	-	-	
48	SHORELINE*	-	9,362	-	-	-	-	-	80	-	-	-	-	9,442	
49	SNEPCO	86,076	79,775	1,104,942	43,602	8,290	176	32	1,796	-	-	-	-	1,324,689	
50	SPDC	39,371	317,394	60,168	23,164	18,419	540	291	1,691	140,621	43,308	163,966	24,610	-	833,543
51	STAR DEEP*	56,193	-	549,248	25,624	10,703	754	26	2,412	-	-	-	-	-	644,960
52	STATOIL*	51,140	165	755,516	7,946	20	-	28	548	-	-	-	-	-	815,362
53	STERLING	-	64,289	-	815	880	7	-	258	-	-	5,100	-	-	71,349
54	TEPNG	28,254	247,344	105,430	18,055	11,297	465	-	1,985	140,272	28,763	54,656	-	-	636,520
55	TUPNI*	80,622	-	66,617	50,953	21,852	117	18	1,011	-	-	-	-	-	221,190
56	UNIVERSAL ENERGY	-	-	-	411	47	19	-	32	-	-	-	-	-	509
57	WALTERSMITH	718	3,203	3,726	-	-	-	-	79	-	-	-	-	-	7,726
	SUB TOTAL	667,517	2,784,139	5,383,716	386,462	135,828	12,683	919	47,503	602,810	107,161	902,220	24,610	-	11,055,568
	NLNG Payments	-	-	-	-	-	-	-	-	-	-	-	-	1,076,012	1,076,012
	Unilateral Disclosure	253	395	6,152	1,158	-	-	87	-	689	-	500	-	-	9,235
	TOTAL	667,770	2,784,534	5,389,868	387,621	135,828	12,683	1,006	47,503	603,499	107,161	902,720	24,610	1,076,012	12,140,815

Note: * Indicate companies in business relationship. See Appendix 5 for various business relationship operated by the covered Entities.

2.6 Summary of Cash Call Payments

2.6.1 Introduction

Joint Venture (JV) partners provide monthly contributions towards their projects based on the approved National Assembly operational budgets. Each JV Operator makes monthly requests to other partners for advance payment to meet anticipated costs and expenditures in that cash call month.

The requests from the JV operators undergo various levels of reviews & approvals in NAPIMS via committees drawn from various professional work groups.

The final performance approval rests with the Operating Committee (OPCOM), which comprises:

- GGM, NAPIMS as Chairman
- Top management staff of NAPIMS and the International Oil Companies(OCs)

For the year under review, the total cash call payment by the Federation was **\$4,370,495,000** as shown in **Table 2.8.** below:

Table 2.8.: Summary of Cash call payments

ENTITY	Source Currency		Functional Currency
	USD '000	Naira '000	
NNPC/SPDC/TEPNG/NAOC	450,085	127,779,141	1,100,592
NNPC/TEPNG	400,837	77,663,804	796,213
NNPC/CNL	402,383	90,855,542	864,917
NNPC/PAN OCEAN	21,735	5,587,559	50,181
NNPC/EXXONMOBIL	326,444	92,114,874	795,389
NNPC/NAOC	160,461	102,209,713	680,797
NNPC/FIRST E & P	751	1,330,571	7,525
NNPC/NEWCROSS E & P	17,267	6,884,006	52,313
NPDC/CNL	3,638	1,561,846	11,589
NPDC-SPDC	5,688	1,039,321	10,979
Sub-Total	1,789,290	507,026,377	4,370,495

Source: JP Morgan NNPC/CBN JV Dollar Cash Call Account, NNPC/CBN JV Naira Cash Call Account and Cash Call Mandates

The table above shows the combined Dollar and Naira Cash Calls paid by NAPIMS to the operators. Converted to US dollars, the aggregate cash call received by the JV operators in 2015 was **\$4,370,495,000**.

2.7 Summary of Joint Venture Alternative Funding Arrangements

Joint Venture Alternative Funding Arrangements (AFA) relates to other forms of financial transactions, aimed at achieving an effective budget to cover the JV arrangements. An example of an AFA is the Modified Carry Agreement (MCA). A review of MCA transactions showed that there were no in-kind transactions involving the lifting of crude oil under the alternative funding arrangements for the payments of taxes and royalties. MCA payments of taxes and royalties were made from designated escrow accounts traced to the FIRS and DPR Accounts domiciled with CBN. In 2015, five companies used MCA arrangements.

The total revenue accrued to the Federation because of AFAs is **\$761.851** million as shown below:

Table 2.9.: Summary of MCA Revenue to the Federation

ENTITY	PPT	ROYALTY	EDUCATION TAX	CITA	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000
CHEVRON	15,098	4,032	735	-	19,865
TEPNG	-	54,125	919	9,024	64,068
MOBIL	380,067	101,498	-	-	481,565
NAOC	39,907	12,153	575	1,657	54,292
SHELL	90,260	35,105	4,410	12,286	142,061
Total	525,332	206,913	6,639	22,967	761,851

A review of the revenue stream from AFAs showed that PPT made the highest contribution of **\$525.332 million** representing 68.95% of total MCA revenue.

2.8 Summary of Social Expenditure and Infrastructure Project

Social Expenditures are payments/contributions made by extractive companies; these payments can be mandated by law, discretionary, part of a company's legal and contractual obligations. These payments are either in kind, to a third party, or to a government agency.

In Nigeria, social expenditures are classified as Mandatory and Non - Mandatory Disclosures. The mandatory social expenditures are payments mandated by law that do not accrue to the Federation but to respective agencies that receive the payments. For instance, the Niger Delta Development

Commission - Section 14 (b) of the NDDC Act, mandates the Commission to collect 3% of the total annual budget of any oil producing company operating onshore and offshore in the Niger Delta area, including gas-processing companies. For the Nigerian Content Development Monitoring Board- Section 104 of the Nigerian Oil & Gas Industry Content Development (NOGICD) Act of 2010 provides that 1% of every contract in the upstream sector of the Nigerian oil and gas industry shall be deducted at source and paid into the Fund.

The Non-mandatory social expenditures include, Community development programmes(CDPs), MOUs signed between companies and host communities where they operate, projects embarked upon by companies to get their annual work plans signed-off by the DPR. These projects/activities are designed to foster a better partnership between companies and their host communities. This is a form of social capital.

In 2015, 30 out of the 56 entities covered in this Report executed 371 voluntary social expenditure projects. These companies spent a total of **\$40,902,262** as part of corporate social responsibility programmes. Table 2.10 shows the total social expenditures for 2015. Appendix 6 contains details of voluntary social expenditures.

The Report revealed that there are no agreements involving the provision of goods and services (i.e. infrastructure projects) in full or partial exchange of petroleum licences for 2015.

Table 2.10: Summary of Social Expenditure

S/N	COMPANY	NO OF PROJECTS	NGN	USD \$	EQUIV USD \$
	JVs				
1	MOBIL PRODUCING NIGERA	31	508,966,794	36,909	2,627,993
2	NOAC	11	4,879,216		24,839
3	TOTAL TEPNG			12,487,752	12,487,752
4	SPDC	92	1,025,526,627		5,220,822
5	EROTON	14	8,508,817	54,104	97,421
	PSCs				-
6	ADDAX APPNL	10	122,133	594	1,216
7	ADDAX APENL	4	10,940	58	114
8	ESSO - OML 133	2	147,829,853		752,582
9	ESSO - OML 138	3	1,268,030		6,455
10	NAE	9	243,812	2,200	3,441
11	SNEPCO	15	101,784	509	1,027

12	STARDEEP	13	1,723,589	27,237	36,012
13	TOTAL TUPNI	11		12,487,752	12,487,752
14	SAPETRO	4	44,689	2,158	2,386
	SC				
15	AGIP – AENR	1	123,041,109		626,386
	MFOs				-
16	AMNI	10	620,125,292	50,086.43	3,207,063
17	BRITTANIA-U NIG LTD	1	67,650,000		344,397
18	CONOG	2	593,000		3,019
20	CONOIL	1	20,000,000		101,817
21	DUPRI	1	1,520,000		7,738
22	FRONTIER	1	6,255,981		31,848
23	MID WESTERN	7	218,864	1,147	2,261
24	MONIPULO	28	85,842,200		437,012
25	NDPR	7	95,590,127		486,637
26	ORIENTAL ENERGY	2	301,617		1,536
27	PILLAR OIL	5	85,860,820		437,106
28	PLATFORM	26	32,540,000		165,657
29	SEPLAT	4	119,000,000	693,565	1,299,378
30	WALTERSMITH	2	116,674		594
	Total	317	2,957,881,967	25,844,071	40,902,262

Source: 2015 validated template on Social Expenditure

2.9 Quasi Fiscal Expenditure

Quasi-fiscal expenditure are material public expenditure made by a State-Owned Enterprise (SOE) or its subsidiaries on behalf of the State outside the budgetary process. In 2015, subsidy payment to oil marketers/importers (NNPC inclusive) meant to bridge the difference between cost of purchasing/importing light products and the landing cost are considered as quasi-fiscal expenditures.

Section 10.8 of this Report contains details on these subsidy payments.

There was budgetary provision for subsidy in 2015 for kerosene and PMS (Petrol) totaling **₦145.515billion**. However, the total subsidy payments approved by PPPRA for NNPC was **₦317.280billion**.

2.10 Transportation Revenue

Transportation revenue is paid for crude handling charge/fee paid by third party user of the pipelines owned by JV companies (of which NNPC owns between 55% to 60% equity). The total revenue stream accruing from pipeline transportation fees is **\$24,609,524**. This represents 55% counterpart share of the Federation in the SPDC Joint Venture infrastructure.

Table 2.11: Pipeline Transportation Revenue

S/N	COMPANY NAME	SOURCE CURRENCY		FUNCTIONAL CURRENCY
		\$	N	
1	SHELL PETROLEUM DEVELOPMENT COMPANY (SPDC) LTD	16,561,626	1,580,849,336	24,609,524
	TOTAL	16,561,626	1,580,849,336	24,609,524

2.11 Summary of NLNG Dividend, Loan and Interest Payment

2.11.1 Introduction

The Nigeria Liquefied Natural Gas Limited (NLNG) is a joint venture company owned by four shareholders, namely, the Federal Government of Nigeria, represented by Nigerian National Petroleum Corporation (49%); Shell Gas BV. (25.6%); Total LNG Nigeria Limited (15%) and Eni International N.A.N.V.S ar.I (10.4%). The company was incorporated as Limited Liability Company on May 17th, 1989 to harness Nigeria's natural gas resource through production and export of liquefied natural gas (LNG) and natural gas liquids (NGL).

2.11.2. Loan repayment, Interest and Dividend Payment

In 2015, NLNG paid a total of \$1,076,011,598 to the NNPC Depository Account with JP Morgan Chase. Dividend that accrued to the Federation in 2015 was \$1,043,764,965 representing 97% of the total revenue stream. The interest and principal repayment were **\$3,111,498 (0.29%)** and **\$29,135,135 (2.71%)** respectively. The total sum of **\$1,076,011,598** being payments of dividend, interest and loan repayment were confirmed by NNPC but were not remitted to the Federation.

Table 2.12: Summary of Loan Repayment, Interest and Dividend Payment

	Amount \$	% Contribution
DIVIDEND	1,043,764,965	97.00%
INTEREST	3,111,498	0.29%
PRINCIPAL	29,135,135	2.71%

Total	1,076,011,598	100.00%
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CHAPTER 3

3 NON-FINANCIAL FLOWS

3.1 IN-KIND PAYMENTS TO GOVERNMENT

3.1.1 Introduction

This is an arrangement whereby the oil and gas companies pay incomes to the Federation by way of volumes of crude oil in place of cash or money. An in-Kind revenue receipt relates to incomes accruing to the Federation from concessions in which the Federal Government have participation interest but does not fund such operations. The practice is common in Production Sharing Contract (PSC) concessions in which the Federal Government does not invest in petroleum operations but rely on outcomes based on the winning efforts of the contractors.

Summarized in Table 3.1 below are the In-Kind revenues and volumes that accrued to the Federal Government from PSC operations in 2015:

Table 3.1 In-kind Revenue

ENTITIES	FIRS			DPR		TOTAL	
	PPT	ROYALTY	LICENSING FEE	Value	Volume		
	USD '000	USD '000	USD '000	USD '000	'000 BBLS		
ADDAX	232,280	129,010	47	361,337	5,785		
EEPEN	647,534	117,661	23	765,218	13,324		
SNEPCO	1,104,942	79,775	32	1,184,749	21,537		
STATOIL		165	28	193	11,688		
TUPNI	326,749		18	326,767	7,979		
SEPCO		55,301		55,301	910		
STARDEEP			26	26	1,950		
SAPETRO			39	39	400		
TOTAL	2,311,505	381,912	213	2,693,630	63,573		

Source: Validated FIRS Template & COMD Template

The above table shows the summary of values and volumes of in-kind payments made by PSC contractors to the Federation. However, it should be noted, that some of the contractors fulfilled their government take

obligations by making cash payments. The FIRS and DPR records of payments were validated with the records of the entities.

3.1.2 Analysis of In-Kind Payments - (Values)

The total amount generated by in-kind receipts in 2015 was \$2.694billion. Out of this income, PPT contributed \$2.312billion representing about 85 per cent of PSC revenues to Federation discharged by crude oil lifting by NNPC; with giant Bonga deep-water field contributing more than 48 per cent of the PPT.

The table shows a breakdown of in-kind payments

Table 3.2 Analyses of In-Kind Payments (in Values)

ENTITIES	FIRS		DPR	TOTAL USD
	PPT USD	ROYALTY USD	LICENSING FEE USD	
	000	000	000	000
ADDAX	232,280	129,010	47	361,337
EEPEN	647,534	117,661	23	765,218
SNEPCO	1,104,942	79,775	32	1,184,749
STATOIL		165	28	193
TUPNI	326,749		18	326,767
SEPCO		55,301		55,301
STARDEEP			26	26
SAPETRO			39	39
TOTAL	2,311,505	381,912	213	2,693,630

Source: FIRS Record of PSC Tax Liability discharged by NNPC & DPR record of PSC Royalty Liability discharged by NNPC.

The total In-Kind flow in 2015 is **63.572million barrels** as presented in Table 3.3 below:

Table 3: 3 ANALYSES OF IN-KIND PAYMENTS (in Volumes)

ENTITY	VOLUME OF CRUDE OIL LIFTED BY NNPC		TOTAL
	PPT	ROYALTY	
	' 000 bbls	'000 bbls	'000 bbls
ADDAX	3,839	1,946	5,785
ESSO	10,749	2,574	13,324
SEEPCO	-	910	910
SNEPCO	20,176	1,361	21,537
STARDEEP	1,950	-	1,950
STATOIL	11,688	1	11,688
TUPNI	7,978	0	7,979
NAE		400	400

TOTAL	56,380	7,193	63,573
The volumes reported for DPR's royalty and licensing are the aggregate in NNPC/COMD records			

3.2 ALTERNATIVE FUNDING ARRANGEMENTS IN JV OPERATIONS

The concept of Alternative Funding is financing arrangement designed to eliminate any shortfall funding of the JV budget obligation.

These alternative funding arrangements are in the following categories:

3.2.1 Third party debt financing from the external financial markets (i.e. banks etc.)

Third Party Debt financing option was introduced in late 1999 to fund certain projects with robust cash flow for which equity funding through JVCC was not available. Three projects all under the NNPC/MPN JV have been funded under this arrangement: NGL I, NGL II, and Satellite Fields Phase I. All loans have been fully repaid and all revenues generated from the venture went to the Federation.

3.2.2 IOC Bridge Loan/Term Loan

IOC Bridge/Term Loan was negotiated with Shell to pay for unpaid performance over the years prior to 2008 most of which relate to AFAM NNPC/SPDC JV IPP. It was an arrangement where an IOC will provide a two-year bridge loan to cover NNPC's share of already incurred expenditure on an agreed project. NNPC was expected to partially take out the bridge loan once it secures a bank loan and IOC co-lending ranking along with bank loan.

3.2.3 IOC Term Loan

The IOC to re-finance the bridge loan in cases whereby NNPC is unable to secure a bank loan after two years used this loan. The accrued interest and the principal were to be repaid over a period of four years after the Bridge loan term.

3.2.4 Modified Carry Agreements (MCAs)

These are loans from existing JV Partners (IOCs). Modified Carry Agreements (MCAs) is a very recent phenomenon that came into being in 2008. It was created to mitigate some defects associated with the Carry Agreements and to provide funding for unpaid performances of prior years. Although Modified Carry Agreement has the same feature as Carry Agreement, the compensation (interest) is paid on cash basis instead of payment with oil.

The Carry Agreements has been the most common form of Alternative Funding and the **Repayment Plan** is as follows:

- **Tax Relief:** A substantial part of the principal payment will be made through transfer of NNPC's tax benefits to the Carrying Party.

- **Carry Oil:** Any unpaid balance (Carry Oil value) is paid from the NNPC's equity portion of the incremental oil and gas production from the relevant projects that will be lifted and marketed by NNPC.
- **Compensation (Interest):** In consideration of financing the Carry Capex, the Carrying Party is compensated at an interest rate that would yield a Financial Internal Rate of Return (FIRR) of 8%. This payment comes from the NNPC's equity portion of the incremental oil and gas production from the relevant projects that will be lifted and marketed by NNPC.

Table 3.4 - Twelve (12) existing portfolio of MCAs

COMPANY	PROJECT
SPDC	Nembe Creek Bundle Cawthorne Channel Gbaran-Ubie 1 Gbaran-Ubie 2
TEPNG	Ofon 2 OML 58 Upgrade
MPN	2007-2009 NNPC/MPN MCA 2010 NNPC/MPN MCA 2010 Oso Condensate
CNL	2008 CNL MCA
NAOC	NLNG T4/T5 Gas Supply Ebocha-Beniboye

From the review of entity's records, reconciliation schedules and bank statements at NAPIMS, the total income earned by the Federation from MCA activities is summarised in Table 3.5 below.

Table 3.5: SUMMARY OF MCA REVENUES TO GOVERNMENT

ENTITY	PPT	ROYALTY	EDUCATION	CITA	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000
CHEVRON	15,098	4,032	735	-	19,865
TEPNG	-	54,125	919	9,024	64,068
MOBIL	380,067	101,498	-	-	481,565
NAOC	39,907	12,153	575	1,657	54,292
SHELL	90,260	35,105	4,410	12,286	142,061
Total	525,332	206,913	6,639	22,967	761,851

Source: NAPIMS Reconciliation Meeting Schedules and Related MCA Bank Statements

The amount of **\$761.851 million** was realized as revenue inflows to the government during the period, with Mobil MCA operations contributing 72.35% of the PPT paid and 63.21% of all the payment made under the arrangement.

CHAPTER 4

4 JOINT DEVELOPMENT ZONE - SÃO TOMÉ AND PRÍNCIPE (STP) AND NIGERIA

4.1 Introduction

The Joint Development Zone (JDZ) was established by the Governments of Nigeria and São Tomé and Príncipe (STP) signing a 45-year Treaty on February 21st, 2001 to address issues relating to overlapping maritime boundaries and agreeing to a 60%/40% resource sharing formula to Nigeria and STP respectively. The JDZ is an area of overlapping maritime boundary claims, defined by coordinates covering an area of 34,450 sq. km in the oil rich Gulf of Guinea. In accordance with the signed treaty, the board of Nigeria Sao-Tome and Principe Joint Development Authority (NSPJDA) with headquarters in Abuja, Nigeria was established on 16 January 2002 with the responsibility of managing the activities relating to exploration and exploitation of the resources aimed at achieving optimum commercial utilization within the Zone.

4.2 Management Structure

The overall supervision of NSPJDA is with the Joint ministerial council (JMC) responsible for all issues relating to award of interest, monitoring and inspection of petroleum operations. They approve budget and rules to the Joint Management Authority. The Joint Management Authority carries out day-to-day management of the Authority but reports to the JMC. A board that consists of four Executive Directors two each from Nigeria and São Tome and Príncipe governs the Authority.

4.3 JDZ Activities

In line with the established Act of JDZ, the Joint Management Council (JMC) has awarded six blocks in the JDZ zone from two licensing rounds carried out in 2002 and 2004. However, after years of exploration some of the operators relinquished their interest because of non-commercial oil discoveries.

On June 9, 2015, former contracting parties in JDZ Block-1 signed a new Production Sharing Contract (PSC) for JDZ Block-1 upon the relinquishment of 91% interest¹¹. The new Exploration and Production (E&P) companies with sharing partnership are -

¹¹ <http://www.nspjda.com/new-jdz-block-1-production-sharing-contractor-psc/>

- i. Equator Hydrocarbons Limited (Operator) - 56% (New Equity)
- ii. PAPIS Energy Solutions - 35% (New Equity)
- iii. Dangote-Energy Equity Resources (DEER) - 9% (Exiting Equity)

4.4. Total Financial Flows

For the year under review, the total financial flows to NSPJDA was One Million, Six Hundred and Fifty-Six Thousand, Two Hundred Dollars (**\$1,656,200**) income received as Signature Bonus for the new Production Sharing Contract (PSC) for JDZ Block-1, paid by the under listed companies:

Table 4. 1: Total financial flows to NSPJDA in 2015

S/N	Name of Company	Particulars	Amount (\$)
1	PAPIS Energy Solutions	Signature Bonus	636,200
2	Equator Hydrocarbons Limited (Operator)	Signature Bonus	1,020,000
	Total		1,656,200

Source: Joint Development Authority: Nigeria- São Tomé and Príncipe

Other Findings

- a. The NSPJDA board and council are yet to be constituted.
- b. The **\$1,656,200** revenue collected as signature bonus could not finance NSPJDA budget of **\$10,597,333.27**, nor was the short fall borne by the state parties of Nigeria and São Tomé and Príncipe.
- c. NSPJDA is yet to appoint an external auditor to audit its financial statements.

CHAPTER 5

5 PRICING METHODOLOGY OF FEDERATION CRUDE

5.1. Introduction

The NNPC-COMD is saddled with the responsibility to lift, price, market and sell all Government crude oil entitlements on behalf of the Federation. The proceeds from the sale of the various lifting are however accounted for through designated foreign and local bank accounts with JP Morgan Chase, Bank of International Settlement¹² and CBN for each of the parties. Thus, the Federation equity crude oil and gas is accounted for directly by the NNPC while the sales proceeds with respect to crude oil and gas lifting for Royalty and Petroleum Profits Tax/Companies Income Tax as well as Education Tax are accounted through bank accounts opened and maintained by the DPR and FIRS respectively. See details of pricing methodology and basis for official selling price in appendix 7

5.2. Findings on Pricing Methodology

5.2.1. Export Crude Sales

Federation Crude oil pricing has two (2) major pricing components- namely, the average dated Brent and the Official Selling Price (OSP). A review of the pricing methodology adopted by NNPC indicate that

1. The Federation export crude oil monthly Average Selling Price (\$) per barrel was computed using the monthly total of sales and monthly total of quantity (barrels). Therefore, the annual average selling price was **\$52.16 per barrel** in 2015 (2014: **\$101.91 per barrel**) as presented below:

Table 5. 1: Monthly Analysis of Export Crude Oil Sales Volume and Value

Month	Total Volume (X)	Total Value (Y) 2014	Monthly Average Unit Price (Z=Y/X) 2014	Total Volume (A) 2015	Total Value (B) 2015	Monthly Average Unit Price (C=B/A) 2015
	Bbls'000	US \$ '000	US \$	Bbls'000	US \$ '000	US \$

¹² **Bank of International Settlement (BIS):** - Due to change in US financial policy to minimize financial exposure of all US Banks (JP Morgan inclusive), a transit bank account was opened with Bank of International Settlement (BIS) by the CBN – whereby, JP Morgan was mandated based on the US Policy to sweep all receipt on a weekly basis to the BIS.

January	8,476.75	933,797.27	110.16	6,647.33	323,425.51	48.65
February	6,548.79	727,925.50	111.15	6,539.23	361,897.55	55.34
March	9,369.09	1,011,946.54	108.01	6,071.58	340,227.16	56.04
April	7,997.81	885,490.84	110.72	5,119.91	306,598.47	59.88
May	7,423.80	831,885.34	112.06	3,940.97	259,160.16	65.76
June	5,074.98	578,327.80	113.96	5,022.43	307,749.64	61.28
July	6,923.64	753,042.80	108.76	1,918.72	108,916.80	56.77
August	4,624.39	470,943.16	101.84	3,393.90	160,582.39	47.31
September	6,202.54	600,487.69	96.81	6,927.58	325,281.54	46.95
October	4,150.55	364,341.96	87.78	6,169.00	305,856.05	49.58
November	6,128.96	475,155.33	77.53	3,730.56	161,895.26	43.40
December	4,066.67	212,838.84	52.34	5,176.53	202,093.98	39.04

Source: Validated 2015 COMD Sales profile and 2014 NEITI Oil & Gas Audit Report

2. The pricing methodology was consistently applied on the export crude sales except for Ebok crude type lifted by Messrs. Dans Global (one of the NNPC crude oil off-takers) resulting to revenue loss of **\$735,724.68** (See Appendix 8 Schedule of pricing shortfall- Export Crude).

NNPC's response

*The case of inconsistency in the pricing methodology relates to Ebok crude type lifted by Messrs. Dans Global (one of the NNPC crude oil off-takers). Considering the crude oil price valuation carried-out, the unit price was **\$53.776** while the Bill of lading quantity of the cargo was **624,189 barrels** and total value of **\$33,566,387.66**. However, the company had remitted **\$32,830,731.98** to the Federation account at an outturn quantity of **610,609 barrels** based on the outturn report¹³ from the independent inspectors and the GMD approval to use net outturn volumes. COMD thereafter issued a valuation after receiving DPR position on the outturn.*

5.2.2. Domestic Crude Sales

- i. **153.24 million barrels** of domestic crude oil was sold in 2015 and NNPC delivered 37% to PPMC as unprocessed crude being exported; 57% as offshore processing; and 6% as Refineries deliveries. NNPC treated this as 100% Sales to itself- hence acting as both Seller and Buyer of the Federation Crude.
- ii. NNPC is expected to pay for domestic crude lifted into CBN- Crude Oil & Gas Revenue – Naira Account.

¹³ Detailed report prepared by the discharging terminal to record discrepancies in the form of over, short and damaged cargo as manifested and cargo checked at a time and place of discharge from ship.

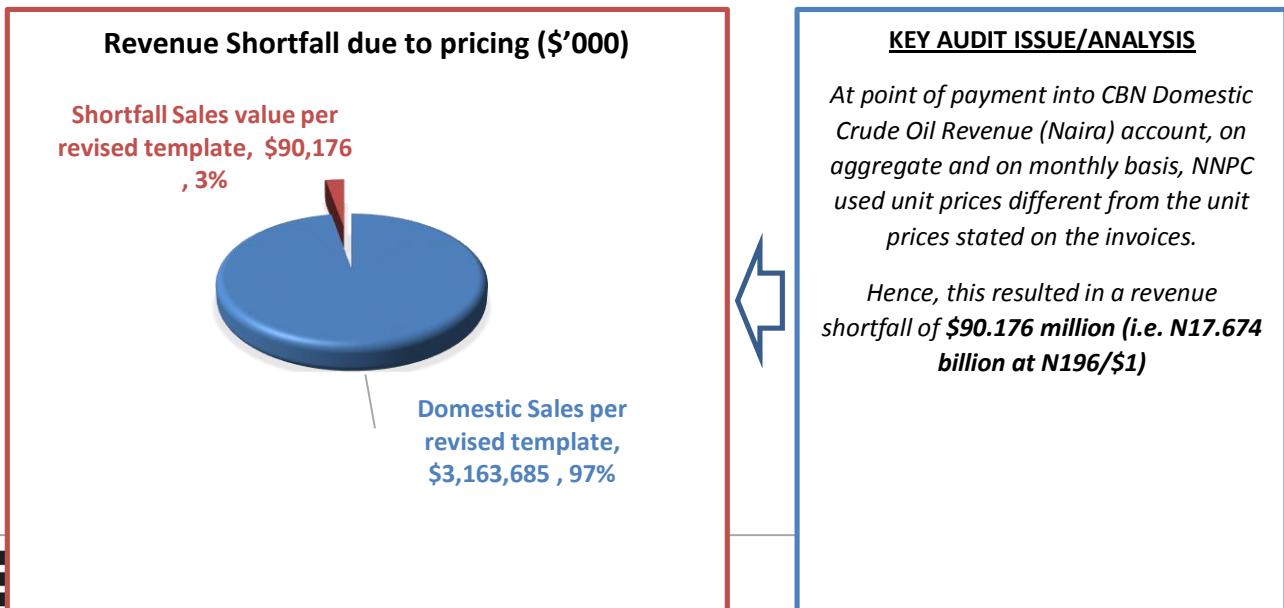
- iii. On monthly basis, NNPC transfers into the bank account a lump sum, which CBN typically described as "***Multi Credit Entry - Transfer of NNPC Fund from pool account to Oil & Gas Account***".
- iv. On aggregate, the total dollar equivalent for the year under review was **\$7.775 billion (i.e. N1.505 trillion)** based on exchange rate of **N167** in January, **N195.58** in February (as against **N197 CBN buying rate**), **N196** in March to June, **N195.95** in July (as against **N196 CBN buying rate**), **N196** in August, **N196** in September, **N195.95** in October (as against **N195.98 CBN buying rate**), **N196** in November and **N195.97** in December (as against **N196 CBN buying rate**). The inconsistent application of CBN exchange rate, owing to NNPC not converting on the date of invoice but aggregating all Dollar invoices for the month and converting at an average exchange rate, led to under payment of **N4.024 million**. *See Appendix 9 Schedule of converting aggregated monthly dollar invoices into naira)*
- v. All transfers into CBN NNPC Domestic Crude Oil Revenue (Naira) Account are made net of Crude & Product oil losses, pipeline repairs & maintenance; and subsidy deduction. **N60.997 billion** accounted for "Crude and Product Oil losses"; **N112.818 billion** accounted for "Pipeline repairs & maintenance"; and **N316.721 billion** accounted for "Subsidy deduction".
- vi. At the point of remittance into the CBN-NNPC domestic crude oil (Naira) accounts by NNPC, NNPC based remittance on another valuation report that used a revised pricing option, which was often lower than the initial valuation. By implication, the pricing methodology was not consistently applied leading to a revenue loss of **\$90.176 million (See Appendix 10 Schedule of pricing shortfall- Domestic Crude)**. Therefore, Nigeria failed to realize revenues from crude sales in a manner consistent with market conditions with respect to sales to NNPC and its subsidiaries.

NNPC Responses

The practice of double valuation vis-à-vis retaining margin has been stopped based on the disposition of the current administration.

Below is the graphical representation of the revenue loss:

Figure 5.1: Summary Analysis of shortfall in Domestic Crude oil pricing



CHAPTER 6

6 FEDERATION EXPORT CRUDE OIL, GAS AND FEEDSTOCK SALES

6.1 Introduction

The Nigerian National Petroleum Corporation (NNPC) as the state oil corporation is the representative of the Federation in the Oil and Gas Sub-Sector of the Nigerian economy.

The federation, through various production arrangements, is entitled to oil and gas revenue. Production arrangements include Joint Ventures (JVs), Production Sharing Contracts (PSCs), Service Contracts (SCs), Sole Risks (SRs) and Marginal Fields.

NNPC Crude Oil Marketing Division (COMD) is responsible for the marketing and sales of Crude Oil, Gas and Feedstock on behalf of the Federation (i.e. Federation Export & Domestic Crude), Other Government Department and Agencies (i.e. FIRS, DPR), NNPC subsidiary and business units (PPMC, NPDC) and Project/ arrangement (i.e. Pre-export financing, MCA and RDP/QIT).

For marketing and sales of crude oil, gas and feedstock relating to federation export, customers are advised to remit the proceeds to the JP Morgan Chase Crude Oil & gas account (for crude oil sales proceeds) and JP Morgan Chase Gas Revenue account (for gas & feedstock). Subsequently, NNPC issues mandate instructing Central Bank of Nigeria to transfer to either the Federation Account or the Joint Venture Cash Call accounts. In the year under review, the process of cashing-out from the JP Morgan Chase changed due to change in the US banking policy – this prompted the CBN to arrange with the Bank of International Settlement¹⁴ as a transit/ holding account whereby funds were transferred into the BIS account from the JP Morgan Chase automatically on a weekly basis. Once the CBN received NNPC mandate, CBN instructs the BIS to transfer it to either the Federation account or the Joint Venture Cash Call account.

For sales proceeds with respect to other government Department and Agencies, it is the responsibilities of the respective entity to account for it.

¹⁴ Bank of International Settlement- For detailed explanation, see audit findings/ observations contained in Session 6.6.1. (**Matching Crude Oil Sales Value against Receipt into JP Morgan Crude Oil and Gas Accounts**).

6.2 Federation Export Crude Sales

6.2.1 Total crude oil lifting volume

The total lifting profile for the federation in 2015 was **780.429 million barrels**. The table below gives a breakdown based on stream:

Table 6.1.: 2015 Summary of lifting allocation profile from all streams

S/N	Beneficiaries	Lifting	
		Volume (Barrels' 000)	Percentage (%)
A	Federation (NNPC) Lifting	313,336	40.15%
B	Companies Lifting	467,093	59.85%
	Total (A+ B)	780,429	100.00%

Source- 2015 NNPC COMD lifting profile from all streams¹⁵

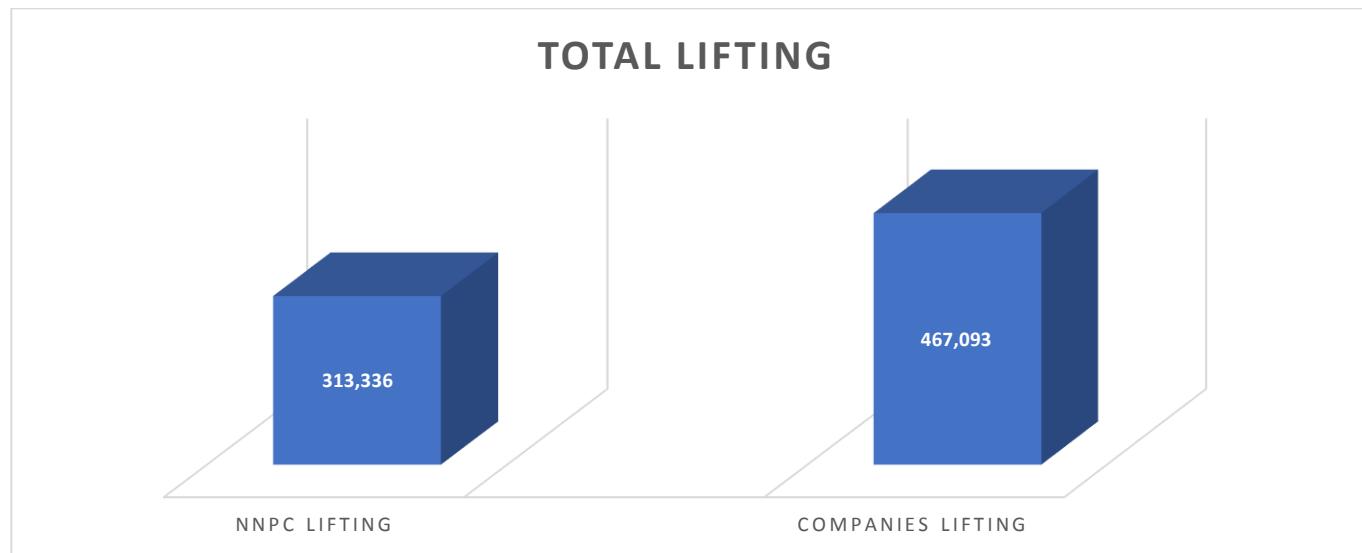


Figure 6.1.: Federation Lifting

The above shows that the total lifting in 2015 was **780.429 million barrels**. Out of which **40.15% (i.e. 313.336 million barrels)** was NNPC entitled lifting. The Table 6.2 below, shows NNPC allocation of the **313.336 million barrels** to each beneficiary account.

¹⁵ 2015 NNPC COMD lifting profile from all streams- See appendix 11

Table 6.2.: Analysis of NNPC allocation of entitled lifting of 313.336 million barrels to each beneficiary account

		Volume (Barrels' 000)	Volume (Barrels' 000)
A	NNPC lifting per COMD lifting profile from aggregated streams		313,336
	Entitled Lifting per COMD lifting profile by beneficiary accounts:		
	Refinery Deliveries	8,740	
	Un-utilized PPMC exports	56,111	
	Offshore processing	89,067	
	Modified Carry Agreement (MCA)	14,259	
	Reserve Development Project (RDP)	6,560	
	DPR (Royalty) & Concession Rentals	7,192	
	FIRS (PPT)	56,013	
	Federation Account	60,076	
B	Sub-total		298,018
	Variance* (A- B)		15,317

The table above shows that NNPC under lifted 15.317 million barrels (i.e. 313.336 million barrels indicated by 2015 NNPC-COMD lifting profile from aggregated streams indicated what NNPC lifting was as against 298.018 million barrels indicated in the COMD lifting profile by beneficiary accounts).

NNPC's Response:

NNPC did not under lift its equity by 15.317 million barrels; this is the volume lifted by NNPC on behalf of NPDC from Brass Terminal as its equity from the divested NAOC JV.

Further Audit Comment:

NNPC, in its submission, did not indicate that the 15.317 million barrels included in federation lifting profile belongs to NPDC. However, NNPC should always reconcile the NNPC COMD lifting profile from aggregated streams with the NNPC COMD lifting profile by beneficiary accounts, and disclose the reasons for discrepancies if any.

Furthermore, there was inconsistency between the COMD lifting profile by beneficiary accounts and the COMD actual lifting/sales profile. The table below summarizes the findings:

Table 6.3.: 2015 Comparison of NNPC COMD lifting profile by beneficiary accounts and the actual lifting/ NNPC COMD sales profile

Destinations	Entitled Lifting & Sales	Actual lifting and Sales per invoice	Variance (If positive= over lifting by NNPC, if negative= under lifting by NNPC)	
	COMD lifting profile by beneficiary accounts	COMD Sales Profile		
	Volume (Barrels' 000)	Volume (Barrels' 000)	Volume (Barrels' 000)	Percentage
	A	B	C = B- A	D = C/ B
Refinery Deliveries	8,740	9,005	265	2.9%
Un-utilized PPMC exports	56,111	56,111	-	0.0%
Offshore processing	89,067	88,119	(948)	-1.1%
Modified Carry Agreement (MCA)	14,259	14,259	-	0.0%
Reserve Development Project (RDP)	6,560	6,560	-	0.0%
DPR (Royalty) & Concession Rentals	7,192	7,192	-	0.0%
FIRS (PPT)	56,013	56,380	367	0.7%
Federation Account	60,076	60,658	581	1.0%
a. Sub-total	298,018	298,284	265	0%
b. Pre-export finance (NPDC)	5,397	4,498	(900)	-20.0%
c. NPDC	34,014	34,873	860	2.5%
Total = a+ b + c	337,429	337,655	225	0.07%

Source: 2015 NNPC COMD lifting Profile by beneficiary accounts & 2015 NNPC COMD Crude oil Sales profile

From the foregoing, on aggregate basis **337.655 million barrels inclusive of NPDC per COMD sales profile** (i.e. actual lifting per sales invoices) is higher than **337.429 million barrels** of COMD

production lifting record (i.e. expected lifting by NNPC). By implication, NNPC over-lifted by 225 thousand barrels (in aggregate) which represent 0.07% of the Sales profile.

NNPC's Response:

Below are the reasons for the aggregated discrepancies:

1. **265,449 Barrels** for WRPC 2014 refinery supply was documented in January 2015
2. There was wrong inclusion of federation cargo of **948,360 Barrels** on Board vessel Stena Suede in December 2015.
3. **400,000 Barrels** for DPR royalty in December 2015 (i.e. Abo crude type lifting) was documented in January 2016.
4. There was wrong inclusion of **367,000 Barrels** on Board Vessel Serena in Federation instead of FIRS.

6.3 Comparison of NNPC COMD Sales profile with DPR lifting record

The DPR record of lifting profile for the federation for the period under review 2015 was **329.466 million barrels**. The table below gives a summary comparison of COMD and DPR record:

Table 6.4.: Comparison of DPR lifting record with actual lifting indicated by NNPC COMD sales profile

2015	
	Volume (Barrels' 000)
A. NNPC Sales profile	337,655
B. DPR lifting record	329,466
Variance (A-B)	8,189
% of variance	2%

Source: 2015 DPR lifting Record and the 2015 NNPC COMD Crude oil sales profile

From the foregoing, DPR record indicated that NNPC lifted **329.466 million barrels** as against **337.655 million barrels** as indicated in the NNPC COMD sales profile as validated. This results to a variance of **8.189 million barrels**.

NNPC's Response:

Below are the reasons for the aggregated discrepancies:

1. 329.466 million barrels per DPR lifting record as analysed excluded Refinery deliveries of 8.740 million barrels.

- 2. COMD crude oil sales profile recorded Bill of lading quantity of the cargo was **624,189 barrels** as against DPR outturn quantity of **610,609 barrels** based on the outturn report in respect of Dan Global (NNPC off taker/ customers) Ebok crude oil type.**

6.4 Summary of Crude Oil, Gas and NLNG Feedstock Sales Volume & Value

Considering the disparity in lifting profiles, the audit relied on COMD Sales profile¹⁶ in **Table 6.3.** (i.e. 2015 Comparison of NNPC COMD lifting profile by beneficiary account and actual lifting/ NNPC COMD sales profile). COMD sales profile in **Table 6.4** forms the basis for reviewing the Federation Export and Domestic Crude Oil marketed and sold by NNPC COMD in the year under review. Below is the summary of COMD federation sales indicating respective beneficiary:

Table 6.5: 2015- Summary of Components of Crude Oil Lifted by NNPC

S/N	NNPC Lifting on Behalf of:	2015		2014	
		Volume Bbls'000	Value '\$000	Volume Bbls'000	Value '\$000
1	Export Crude	60,657	3,163,684	76,988	7,846,183
2	Domestic Crude	153,235	7,775,228	160,201	15,674,817
3	FIRS Crude Oil	56,380	2,956,542	75,690	7,444,817
4	DPR Crude Oil	7,192	356,473	14,738	1,457,042
5	MCA (Alternative Funding)	14,259	761,851	5,390	509,254
6	Reserve Development Project/QIT	6,560	358,554	9,422	927,745
7	PAN OCEAN Lifting			111	11,327
	TOTAL	298,283	15,372,332	342,539	33,871,186

Source: Validated NNPC COMD Crude Oil Sales Profile- 2015

From the table above;

- a) NNPC lifted and sold on behalf of the Federation (i.e. Federation Export & Domestic Crude), FIRS, DPR, NPDC, Pan Ocean, MCA and RDP/QIT. However, for each government agency (FIRS, DPR); Entities (i.e. Pan Ocean and NPDC); and Project/ arrangement (i.e. Pre-export financing, MCA and RDP/QIT), customers/ off-takers/ buyers were advised to remit into the respective government agency/entities/ project/ arrangements designated bank accounts.

¹⁶ COMD Sales profile has been relied upon by the audit because it is the higher of the COMD production & lifting profile by beneficiary accounts and the COMD Sales Profile

- b) For PANOCEAN, NNPC lifted 100% and sells to off takers who remit 60% of the sales proceeds into JP Morgan Chase Crude Oil & Gas Revenue Dollar Account being NNPC equity of the JV arrangement and 40% into Pan Ocean account.

NNPC Response

Pan Ocean had a participating agreement with NNPC to explore and produce oil from **OML 98** as operator for itself and on behalf of NNPC. This agreement was dated August 1st, 1979 and the participating interests is: **NNPC 60% and PAN OCEAN 40%**.

Genesis of Indebtedness:

In 1984, Pan Ocean signed a crude oil Sales contract with NNPC. Unlike the other third parties lifting Nigerian crude oil, Pan Ocean, being a producing oil company in Nigeria, **was exempted in establishing Letters of Credit for the purpose of paying for the crude oil lifted**. This was a general concession given to all oil producing companies operating in the country that signed a crude oil sales contract. Payments for the shipments were made 30 days from the bill of lading date.

The contract with Pan Ocean was effectively performed until 1985 when there was a general glut in world oil market and crude oil prices collapsed to below \$10 per barrel. Between January and February 1985, some cargoes were lifted by Pan Ocean with payments due in February and March 1985 respectively. The total outstanding payment from those cargoes was put at **\$135,757,342.97**. Further lifting was disallowed as a result of its inability to pay for those cargoes.

After an in-house reconciliation by Crude Oil Marketing Division (**COMD**), the net principal indebtedness of Pan Ocean was put at **\$135,793,096.28**.

THIS NECESSITATED NNPC LIFTING OF PANOCEAN EQUITY SHARE OF PANOCEAN CRUDE OIL IN ORDER TO RECOVER ITS DEBTS STATED ABOVE AND THE ACCRUED INTEREST. THE JV PARTNERS ARE STILL CONTRIBUTING THEIR RESPECTIVE EQUITY CASH CALLS TO THE JV.

NNPC has recovered the indebtedness, and now with the approval of the GMD, is constituting a committee on recovery of interest accrued on the indebtedness.

NNPC lifted, marketed and sold on behalf of NPDC based on the following business models;

- **Model 1-** NPDC direct assets (i.e. 100% NPDC owned assets) - this relates to OML 60, 61, 62, 63, 64, 65, 66, 111 and 119. NNPC Lifting and Sales under this category belongs to NPDC.
- **Model 2-** NPDC jointly owned assets operated by NPDC through JV with First hydrocarbon, Shoreline, ND Western, El Crest and Neconde- this relates to OML 26, 30, 34, 40 and 42. NNPC Lifting and Sales under this category belongs to NPDC.
- **Model 3-** NPDC jointly owned assets and not operated by NPDC but Seplat. This relates to OML 4, 38 and 41. NNPC Lifting and Sales under this category belongs to NPDC.

- **Model 4-** Non-Equity Assets operated by NPDC on behalf of NNPC for transfer of knowledge/technical capacity of NPDC personnel. This relates to OML 11, 20, 49 and 51. NNPC Lifting and Sales under this category **does not** belong to NPDC but NNPC.

For **Model 4**, NNPC response was that Audit should confirm the figures from NPDC and also note that Aroh field productions are taken as JV Chevron crude injections and lifted as part of Forcados crude while Egbema productions are lifted as part of Bonny JV crude.

See appendix 12 the detailed comparison of the 2014 and 2015 of Federation Export Crude Oil Sales Volume and Values (Sales Receivable). From the detailed comparison;

1. Export crude oil sales volume decreased by **21.21%** (16.332 million barrels) in 2015 (**i.e. 76.989 million barrels in 2014 and 60.657 million barrels in 2015**). This was due to pipeline vandalism/sabotage in the year under review.
2. Sales value decreased by **59.68%** (USD 4.682 billion) in 2015 (**i.e. USD 7,846 billion in 2014 and USD 3.164 billion in 2015**). This was due to drastic reduction in unit price of crude oil in the global market.

Below is the 2015 monthly Export Crude Oil Sales Volume and Value:

Table 6.6: 2015 Monthly Export Crude Oil Sales Volume and Values (Sales Receivable)

Month	2015	
	Volume Bbl'000	Value US\$'000
January	6,647.33	323,425.51
February	6,539.23	361,897.55
March	6,071.58	340,227.16
April	5,119.91	306,598.47
May	3,940.97	259,160.16
June	5,022.43	307,749.64
July	1,918.72	108,916.80
August	3,393.90	160,582.39
September	6,927.58	325,281.54
October	6,169.00	305,856.05
November	3,730.56	161,895.26
December	5,176.53	202,093.98
Total	60,657.72	3,163,684.51

Source: Validated 2015 NNPC COMD Crude Oil Sales Profile- 2015

See appendix 13 for the detailed comparison of the 2014 and 2015 of Federation Export Gas Sales Volume and Values (Sales Receivable). From the detailed comparison;

1. Export Gas sales volume increased by **1.72%** (16 thousand metric tons) in 2015 (**i.e. 951 thousand metric tons** in 2014 and 967 thousand metric tons in 2015).

Sales value decreased by 56% (USD 334.336 million) in 2015 (**i.e. USD 597.024 million** in 2014 and USD 262.688 million in 2015). This was due to increase in transfer into NGL funding account vis-à-vis Escrow accounts in 2015.

Below is the 2015 monthly Export Gas Sales Volume and Value:

Table 6.7: 2015 Gas Sales Volume and Values (Sales Receivable)

	LPGas Sales		EGP Gas Sales		EGTL Gas Sales		Total Gas Sales	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Month	MT'000	US\$'000	MT'000	US\$'000	MT'000	US\$'000	MT'000	US\$'000
January	100.76	19,167.20			3.43	1,233.50	104.19	20,400.69
February	76.01	19,298.92			4.68	2,174.16	80.69	21,473.07
March	57.72	22,107.15			6.05	2,959.10	63.78	25,066.25
April	25.00	11,944.23			-	-	25.00	11,944.23
May	45.69	9,381.82			7.25	4,055.40	52.94	13,437.23
June	107.74	27,885.73			41.76	17,913.49	149.50	45,799.22
July	105.78	21,357.37	12.60	5,047.66	-	-	118.38	26,405.03
August	45.98	8,539.68			2.56	1,099.77	48.54	9,639.45
September	32.00	8,730.57			8.76	3,630.98	40.76	12,361.55
October	105.84	25,800.00			4.70	1,949.97	110.54	27,749.97
November	93.22	30,191.28			8.06	3,301.50	101.28	33,492.78
December	61.85	11,296.07			10.93	3,622.93	72.79	14,919.01
Total	857.59	215,700.03	12.60	5,047.66	98.18	41,940.79	968.37	262,688.48

Source: Validated 2015 NNPC COMD Gas Sales Profile

See appendix 14 for the detailed comparison of the 2014 and 2015 of Federation Export Feedstock Sales Volume and Values (Sales Receivable). From the detailed comparison;

1. Export feedstock sales volume decreased by 35.47% (386.542 MMBTU) in 2015 (**i.e. 1,090 MMBTU** in 2014 and 703.285 MMBTU in 2015). This is due to decrease in production lifting. Sales value decreased by 35.23% (USD 592.822 million) in 2015 (**i.e. USD 1.683 billion** in 2014 and USD 1.090 billion in 2015). This was due to decrease in production lifting increase vis-à-vis increase in transfer into Escrow accounts in 2015.

Below is the 2015 monthly Export Feedstock Sales Volume and Value:

Table 6.8: 2015 Feedstock Sales Volume and Values (Sales Receivable)

Month	Volume	Value
	MBTU	US\$'000
January	64,633.92	131,197.10
February	49,605.02	91,871.43
March	56,624.95	98,123.89
April	57,900.73	98,171.61
May	63,796.98	87,909.98
June	58,149.09	82,679.72
July	63,121.24	97,933.53
August	56,300.87	84,495.63
September	62,373.38	87,736.60
October	59,236.29	90,272.51
November	60,053.18	74,470.13
December	51,490.02	64,965.15
Total	703,285.66	1,089,827.28

Source: Validated 2015 NNPC COMD Feedstock Sales Profile

6.5 Export Crude Oil & Gas Receivables Control Account

6.5.1. Analysis and Reconciliation of Outstanding Balance as at 31st December, 2015

The review of NNPC-COMD Populated Template vis-à-vis available corroborating documents, find below findings on Export Crude Oil and Gas/Feedstock Receivables control account as at 31st December, 2015 (See appendix 15 for the detail analysis and reconciliation of outstanding balance of Export Crude Oil & Gas Receivable Control Account):

Table 6.9.1.: Summary of Analysis and Reconciliation of Outstanding Balance of Export Crude Oil & Gas Receivable Control Account as at 31st December

Description	2015	2014
	\$000	\$000
Balance Brought forward	1,012,186	1,602,107
Total Sales Invoice Less first line deductions	4,599,185	10,949,690
Total Receipt into JP Morgan	(4,651,637)	(11,539,611)
Prior year adjustment	(49,489)	
Balance Carried Forward per audit	910,245	1,012,186
Balance carried forward per NNPC record	(324,235)	(426,175)
Unexplained difference	586,011	586,011

From the review of the detailed analysis;

- a. There was an outstanding of **\$124.822 million** as “debt servicing from NGL Funding Account”- on the basis that;
 - ✓ There are two (2) NGLs (i.e. NGL 1 and NGL 2).
 - ✓ NGL 1 was funded with equity- i.e. NNPC and MPN;
 - ✓ NGL 2, was funded using 3rd party financing whereby revenue from NGL 1 & NGL 2 are used as collateral.
 - ✓ In this case, the lender (3rd party financier) has first line charge for repayment of Loan principal and interest.
 - ✓ The balance in the NGL funding account is cleared on 6-month basis whereby NNPC portion is paid as “price balance”.
- b. There was an outstanding of **\$586.011 million** being the difference of **\$910.245 million** per 2015 audit and outstanding of **\$324.235 million** as per NNPC Record for “Un-explained Difference.” See appendix 16
- c. **The NNPC Adjusted Balance as at 31st December,2015 was \$324.235 million** stated above is adjusted by the audit considering the common practice of NNPC not recognizing sales receipt on the 31 December. Below is the analysis:

Table 6.9.2: Statement of adjusted balance as at 31st December 2015

	2015
	\$'000
Balance as per NNPC Record	348,498
Less: Sale Receipt on 31 December 2015 IRO COS/12/094/2015 but included in year-end 2015 Sales Receivable	(24,263)
Adjusted Balance as at 31st December (As Per NNPC Record)	324,235

Other Findings:

- a. Non-exclusion of amount transferable to Escrow accounts on all end-year unpaid sales invoices (sales receivables) results to the misrepresenting sales receivable at the year end.
- b. Non-provision of schedule indicating aggregated inflow, outflow and net flows in all escrow accounts including NGL funding accounts- while including management commentary as to what is due to the Federation as price balance as the case maybe, results to non-tracking of amount due to the Federation from any alternative funding arrangement.

- c. Non-provision of loan profile / schedule indicating principal, interest and amount of principal and interest paid thereon during each year as well as the net balance, results to non-disclosure of Federation exposure in the Oil & Gas Industry.

Recommendations:

- a. As a remedial action, **\$586.011 million** 2014 un-reconciled/ un-explained sales receivable should be addressed. This will help mitigate risk of perpetually carrying forward un-explained sales receivable.
- b. NNPC should always ensure proper disclose;
 - All end-year adjustment with respect to amount transferable to Escrow accounts on all end-year unpaid sales invoices (sales receivables). This will help mitigate the misrepresenting sales receivable at the year end.
 - Schedule indicating aggregated inflow, outflow and net flows in all escrow accounts including NGL funding accounts- while including management commentary as to what is due to the Federation as price balance as the case maybe. This will help track amount due to the Federation from any alternative funding arrangement whereby customer are advised to pay directly into the “designated” bank accounts other than the regular JP Morgan Chase bank accounts for export sales/ CBN- NNPC bank accounts for domestic sales.
 - Loan profile / schedule indicating principal, interest and amount of principal and interest paid thereon during each year as well as the net balance.

NNPC's Response:

- a. With respect to the **\$586.011 million** 2014 un-reconciled/ un-explained sales receivable, COMD has no record of unexplained balance of \$586.011 million in 2014 (inclusive of \$439.715 pre-2013). This amount arose from the previous NEITI audit non-appreciation and understanding of COMD accounting system for Receivables.

6.6 Summary of Payments Received into JP Morgan Crude Oil and Gas Revenue Accounts

6.6.1. Matching Crude Oil Sales Value against Receipts into JP Morgan Crude Oil and Gas Account

Following from audit review and validation of NNPC-COMD Federation Crude Oil Sales Record as Populated; JP Morgan Chase Crude Oil and Gas Revenue (Dollar) Account Statement and 2014 NEITI audit report vis-à-vis explanation, find below the summary of the transactions and balances in JP Morgan Chase Crude Oil and Gas Revenue (Dollar) account for the year under review:

Table 6.10.: Summary of JP Morgan Chase Crude Oil and Gas Revenue (Dollar) Account

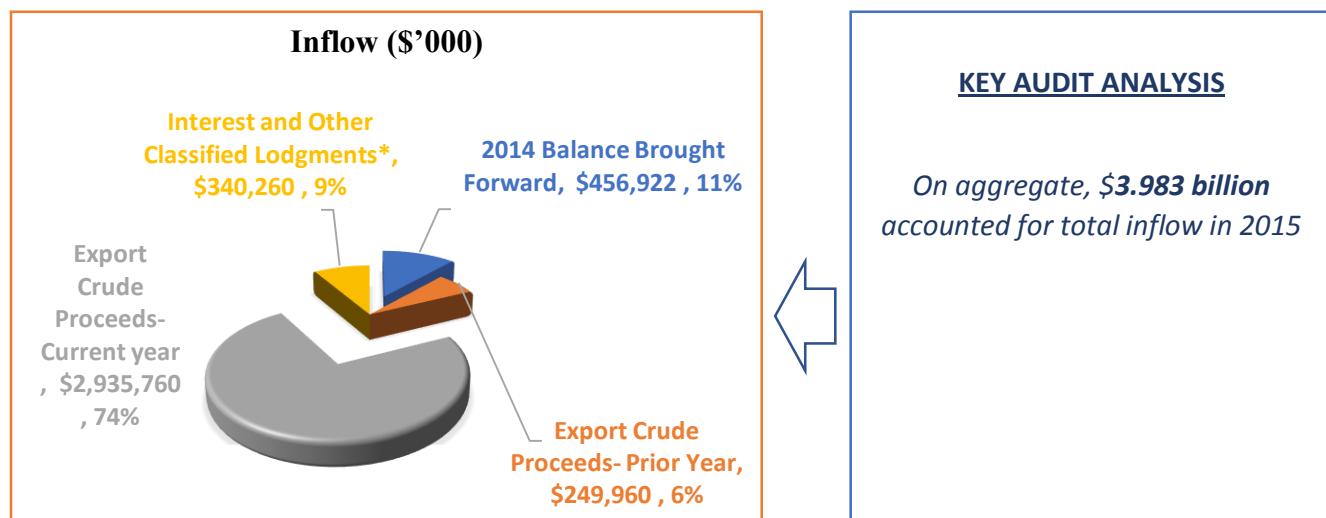
		2015 \$'000	2014 \$'000
Balance as at 1st January	(A)	456,922	583,398

Lodgements:			
Export Crude Proceeds- Prior Year		249,960	632,341
Export Crude Proceeds- Current year		2,935,760	7,598,854
Interest and Other Classified Lodgements¹⁷		340,260	1,109,587
Total Lodgement during the year	(B)	3,525,980	9,340,782
Total Inflow	(A+B)=C	3,982,902	9,924,180
Payments:			
Payment to Federation Account		262,809	2,535,037
Transfer to Bank of International Settlement¹⁸		1,847,724	
Transfer to JV Cash Call Account		1,872,368	6,932,221
Total Outflow	(D)	3,982,902	9,467,258
Balance as at 31st December		0	456,922

Source: Analysed 2015 JP Morgan Chase Crude Oil & Gas Revenue (Dollar) Account and NEITI 2014 Oil & Gas Audit Report

Below is the graphical representation of the summary of Inflow and outflow of the JP Morgan Chase Crude Oil and Gas Revenue (Dollar) Account:

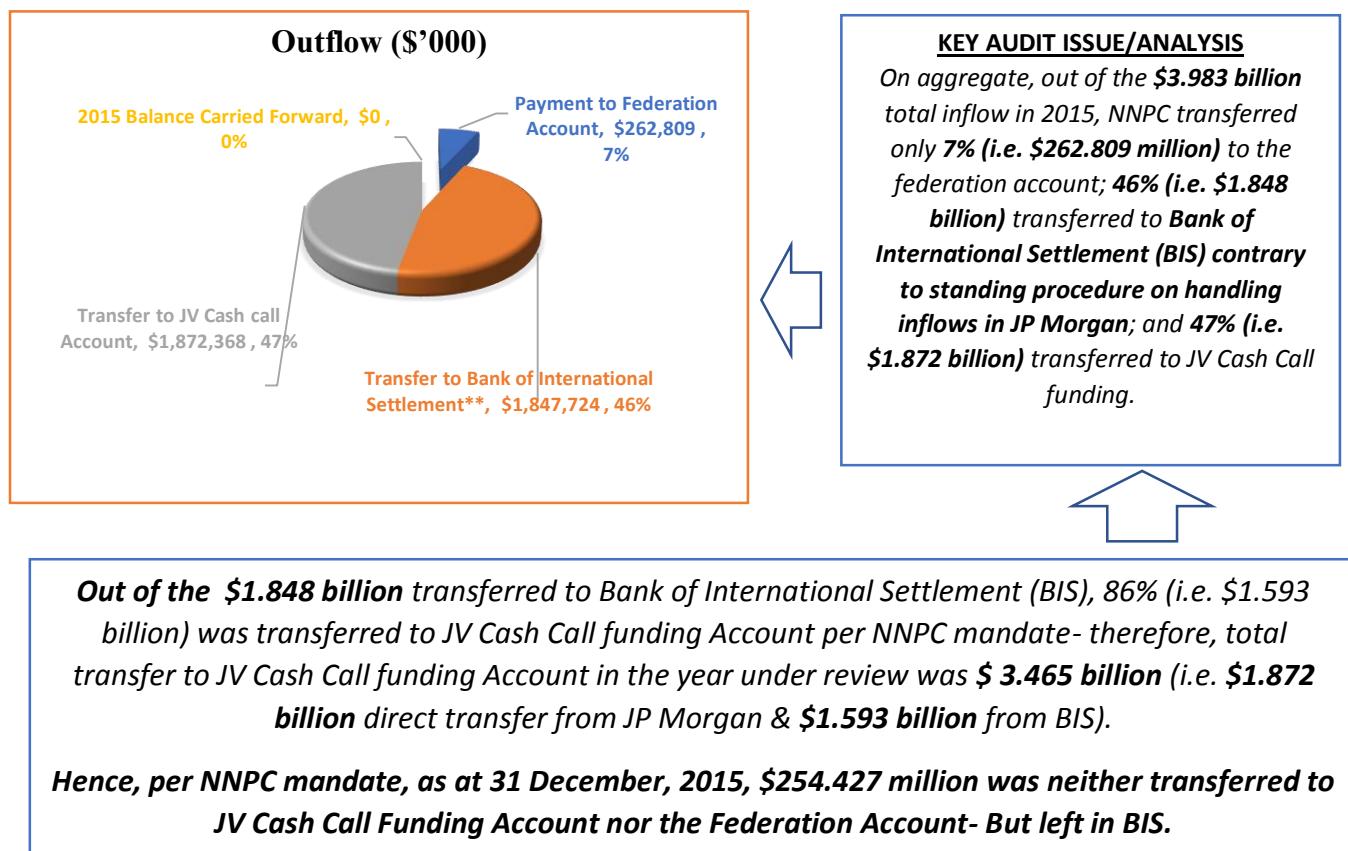
Figure 6.2.: 2015 Summary of JP Morgan Chase Crude Oil and Gas Revenue (Dollar) Account - Analysis of inflow



¹⁷Interest and Other Classified Lodgments is explained in Table 6.14 (Summary of Interest and other classified lodgments)

¹⁸ Transfer to Bank of International Settlement is explained in Table 6.15 (Summary reconciliation of transfer to Bank of International Settlement)

Figure 6.3.: 2015 Summary of JP Morgan Chase Crude Oil and Gas Revenue (Dollar) Account - Analysis of Outflow



From the table and figure above:

- Contrary to the JP Morgan Chase monthly sweeping of inflow to either the Federation Account or the JV Cash Call Funding Account **that should be strictly based on NNPC duly issued monthly mandate to CBN**, there were weekly sweepings to the Bank of International Settlement (BIS).

Upon further audit inquiries, **NNPC- Treasury explained that**, the weekly sweeping without strict adherence to the NNPC duly issued monthly mandate was due to change in US financial policy- whereby US banks were mandated not to retain funds in customer accounts in order to minimize financial exposure of all US Banks (JP Morgan Inclusive).

Consequential impact on NNPC JP Morgan Chase account was that:

- i. Transit bank account was opened with Bank of International Settlement (BIS) by the CBN – whereby, JP Morgan was mandated based on the US Policy to sweep all receipt on a weekly basis to the BIS.
- ii. NNPC issues monthly mandate to CBN advising transfer of fund to either JV Cash Call Account or the Federation Account.
- iii. CBN, upon receipt of NNPC mandate, instruct the BIS accordingly.

b. Interest and other classified lodgments*- below is the analysis:

Table 6.11.: Summary of Interest and other classified lodgments

Descriptions	2015
	\$'000
Interest	218
Insurance Claims	4,801
First Lifting Deposits	-
Miscellaneous Receipts	-
Late L/C & Payment Penalty	110
Independent Power Plant Proceeds	4
Shell Nigeria Exploration	2,029
Settlement Underpayment	2
SPDC Miscellaneous Income	16,737
Reserve Development Project Price Balance	314,349
NNPC SPDC JV	1,928
B/O of CBN	82
	340,260

Source: Validated and analyzed JP Morgan Chase Crude Oil & Gas Revenue (Dollar) Account- 2015

c. Transfer to Bank of International Settlement- below is the analysis:**

Table 6.12.: Summary reconciliation of transfer to Bank of International Settlement

Descriptions	2015
	\$'000
Transfer to Bank of International Settlement per JP Morgan Chase Bank Analysis	1,847,724
Less: Payment of JV Cash Call Accounts per NNPC mandate to CBN	(1,593,298)
End-year balance (Bank of International Settlement)	254,427

6.7 Further Analysis of Export Crude Oil Expected and Actual Sales Receipts Variance

From the further analysis, find below the summary explaining variance between the actual sales for the year and the actual sales receipts during the year under review:

Table 6.13.: 2015- Monthly Reconciliation/ Analysis of Export Crude Oil Sales Value and CBN Receipt

2015	Volume	NNPC/COMD		CBN Receipts	Variance	Credit Notes	First Lifting Deposit	Bank Charges	Technical Cost on Zafiro	Undue & Unpaid	Due But Unpaid	Total
		Sales Value	'000									
Month of Lifting	Bbl'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
January	6,647	323,426	319,338	4,087.94	1,587.80		2,500.00	0.14	-	(0.00)		4,087.94
February	6,539	361,898	344,986	16,911.99	5,166.30		2,500.00	0.14	9,245.55			16,911.99
March	6,072	340,227	335,024	5,203.23	203.33		4,999.90	-	-		-	5,203.23
April	5,120	306,598	295,444	11,154.73	2,347.99		-	0.09	8,806.65		-	11,154.73
May	3,941	259,160	259,160	(0.00)	-		-	-	-		-	-
June	5,022	307,750	305,201	2,549.11	49.27		2,499.83	-	-		-	2,549.11
July	1,919	108,917	108,917	0.07	-		-	0.07	-		-	0.07
August	3,394	160,582	159,265	1,317.16	1,317.21		-	(0.05)	-		-	1,317.16
September	6,928	325,282	325,281	0.07	-		-	0.07	-		-	0.07
October	6,169	305,856	296,986	8,869.68	-		-	0.09	8,869.59		-	8,869.68
November	3,731	161,895	161,895	0.00	-		-	-	-		-	-
December	5,177	202,094	24,263	177,830.97	-		-	-	-	177,830.97		177,830.97
Total	60,658	3,163,685	2,935,760	227,924.95	10,671.91	12,499.73	0.54	26,921.80	177,830.97	(0.00)		227,924.95

Source: Validated Sales Profile and Analyzed JP Morgan Chase Crude Oil & Gas Revenue (Dollar) Account- 2015

From the table above;

- \$ 3.164 billion** accounted for Sales value. Out of which \$ 2.936 billion was traced to JP Morgan and \$ 227.925 million as variance.
- \$ 227.925 million** as variance is accounted for as \$ 10.672 million credit notes, \$ 12.5 million first lifting deposit, \$540 bank charges, \$26.922 million technical cost on Zafiro and \$177.831 million undue / unpaid invoice.

6.8 Transfer Reconciliation of Crude Oil Sales Receipts from JP Morgan Revenue Crude Oil & Gas (Dollar) Account into the JV Cash Call Account and the Federation Account

Following the audit review and validation of NNPC-COMD federation crude oil sales record as populated; monthly written mandates from NNPC to CBN; JP Morgan Chase Crude Oil and Gas Revenue (Dollar) Account statement and 2014 NEITI audit report vis-à-vis explanation, find below the summary of monthly sweeping and transfer from JP Morgan Chase Crude Oil and Gas Revenue (Dollar) Account into the federation account, Bank of international settlement and the Joint Venture account respectively for the year under review:

Table 6.14.: 2015- Monthly Sweeping into Federation Account and Transfer into JV Cash Call Account

Summary of Crude Oil Sales Receipts into JP Morgan Crude Oil and Gas Revenue (Dollar) Account

2015 Quarter	Opening Balance	Receipts Export Crude	Interest and Other Income	Total Inflow	Swept to Federation Account	Transfer to Bank of International Settlement	Cash Call Account	Total Outflow	Closing Balance
	US\$' 000	US\$' 000	US\$'000	US\$'000	US\$'000	US\$' 000	US\$'000	US\$'000	US\$'000
January	456,922	206,629	275	206,904	-	-	446,922	446,922	216,904
February	216,904	307,360	3,590	310,950	-	-	206,904	206,904	320,950
March	320,950	400,294	193,159	593,453	183,136	-	320,797	503,933	410,470
1st Quarter		914,283	197,024	1,111,307	183,136	-	974,623	1,157,759	
April	410,470	335,024	249	335,273	79,673	-	320,797	400,470	345,273
May	345,273	240,269	1,406	241,675	-	-	335,273	335,273	251,675
June	251,675	299,413	2,656	302,070	-	312,069	241,675	553,745	-
2nd Quarter		874,706	4,312	879,018	79,673	312,069	897,745	1,289,488	
July	-	320,122	58,135	378,257	-	378,257	-	378,257	-
August	-	108,917	16,860	125,777	-	125,777	-	125,777	-
September	-	159,265	27,825	187,090	-	187,090	-	187,090	-
3rd Quarter		588,304	102,821	691,125	-	691,125	-	691,125	
October	-	325,281	35,930	361,212	-	361,212	-	361,212	-
November	-	296,986	5	296,991	-	296,991	-	296,991	-
December	-	186,158	169	186,327	-	186,327	-	186,327	-
4th Quarter		808,426	36,104	844,530	-	844,530	-	844,530	

Total		3,185,720	340,260	3,525,980	262,809	1,847,724	1,872,368	3,982,902	-
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Source: Validated and Analysed JP Morgan Chase Crude Oil & Gas Revenue (Dollar) Account- 2015

From the table above:

- \$262.809 million** was swept from JP Morgan Chase to Federation Account (i.e. **\$183.136 million** in March and **\$79.673 million** in April).
- \$1.848 billion** was transferred from JP Morgan Chase by CBN to Bank of International Settlements- out of which **\$1.593 billion** was used to fund JV Cash call Account per mandate while **outstanding balance in BIS was \$254.427 million.** (NNPC- Treasury to provide documentation to indicate that the balance was swept to either JV Cash Call Account or the Federation Accounts in subsequent year i.e. 2016).
- \$1.872 billion** was transferred from JP Morgan Chase to JV Cash call funding account per mandate.

Below is the graphical representation of the summary of Inflow and outflow of the JP Morgan Chase Gas Revenue (Dollar) Account:

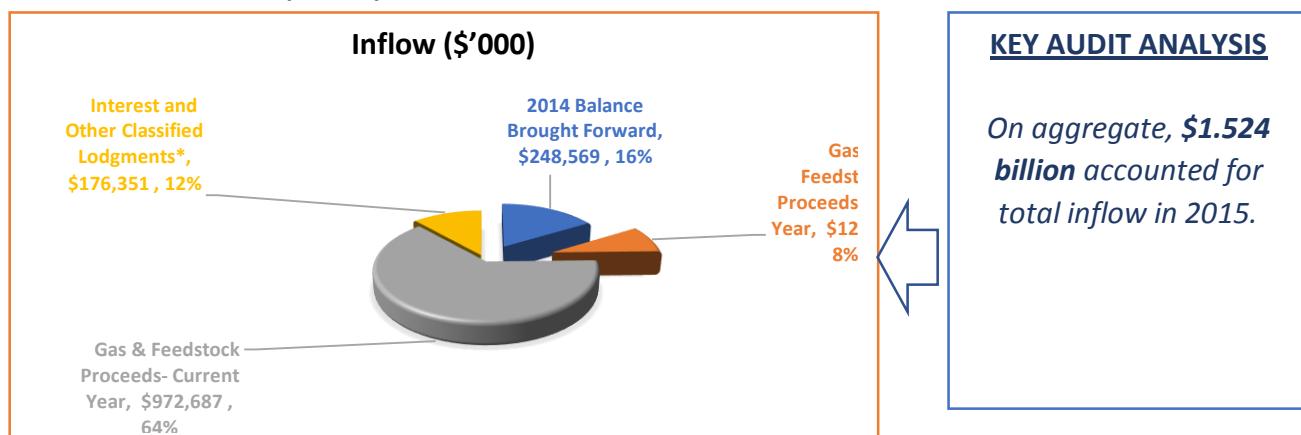
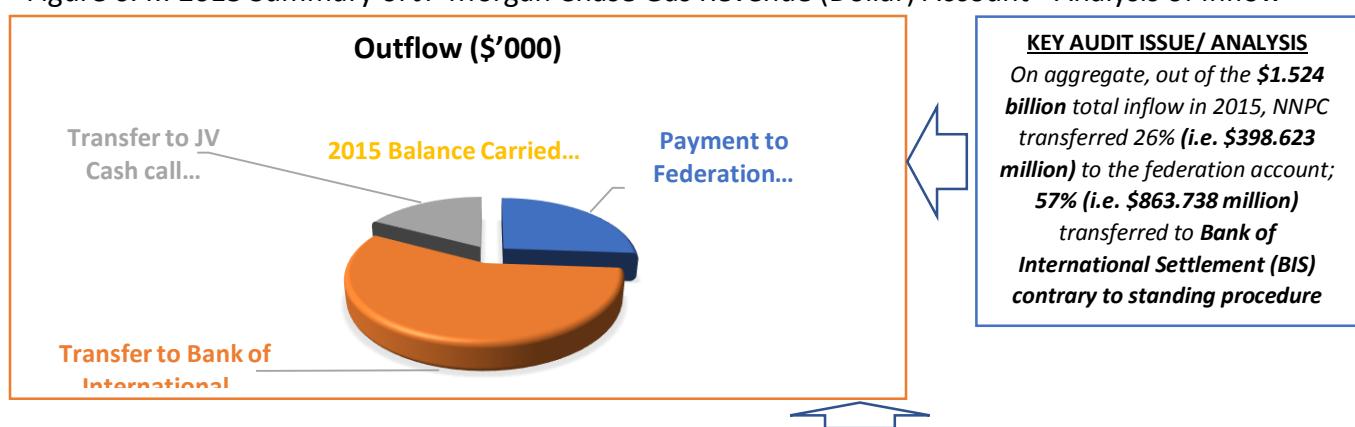


Figure 6.4.: 2015 Summary of JP Morgan Chase Gas Revenue (Dollar) Account - Analysis of Inflow



Out of the \$863.738 million transferred to Bank of International Settlement (BIS), 95% (i.e. \$823.648 million) was transferred to JV Cash Call Funding Account per NNPC mandate- therefore, total transfer to JV Cash Call Funding Account in the year under review was **\$ 1.086 billion (i.e. **\$261.971 million** direct transfer from JP Morgan & \$823.648 million from BIS). Hence, per NNPC mandate, as at 31 December, 2015, **\$40.091 million** was neither transferred to JV Cash Call Funding Account nor the Federation Account- But left in BIS.**

Figure 6.5.: 2015 Summary of JP Morgan Chase Gas Revenue (Dollar) Account - Analysis of Outflow.**From the table above:**

- a. Similar to circumstances in the JP Morgan Chase Crude Oil & Gas (Dollar) Revenue Account, there were weekly sweepings to the Bank of International Settlement (BIS)- contrary to the JP Morgan Chase sweeping of inflow to either the Federation Account or the JV Cash Call Funding Account which should be strictly based on NNPC duly issued monthly mandate to CBN.

6.9 Summary of Domestic Crude Oil and NGC Gas Sales Volume & Value

Following the audit analysis of the validated NNPC-COMD sales value as recorded (i.e. crude sales to PPMC; Offshore Processing; and Refinery deliveries) and the confirmation of actual domestic crude oil sales receipt into CBN-NNPC Domestic Crude Oil Revenue (Naira) Account, below is the summary of the actual sales receipts during the year under review:

Table 6.15.: Domestic Crude Oil Sales Volume and Value (Sales Receivable)

	PPMC		Refinery Deliveries			Offshore Processing			Total Sales			
	Bbl'00	Value US\$'00	Value N'000	Bbl'00	Value US\$'00	Value N'000	Bbl'00	Value US\$'00	Value N'000	Bbl'00	Value US\$'00	Value N'000
1st Quarter	18,791	980,756	182,483,521	265	27,635	5,405,041	23,178	1,221,144	230,098,472	42,235	2,229,535	417,987,034
2nd Quarter	11,717	711,829	139,518,536	949	57,813	11,331,404	21,989	1,343,182	263,263,710	34,654	2,112,825	414,113,651
3rd Quarter	9,1493	458,223	89,802,323	7,79104	378,3956	74,138,956	22,972	1,102,941	216,154,424	39,913	1,939,469	380,095,703
4th Quarter	16,454	696,232	136,440,256	-	-	-	19,980	797,166	156,223,901	36,433	1,493,399	292,664,157
Total	56,111	2,847,041	548,244,637	9,005	463,753	90,875,402	88,119	4,464,434	865,740,506	153,235	7,775,228	1,504,860,545

Source: NNPC COMD Domestic Sales Profile

On aggregate, the Dollar equivalent was **\$7.775 billion (N1.505 trillion)**. January **N167**, February **N195.58 (as against N197 CBN buying rate)**, March to June **N196**, July **N195.95 (as against N196 CBN buying rate)**, August **N196**, September **N196**, October **N195.95 (as against N195.98 CBN buying rate)**, November **N196** and December **N195.97 (as against N196 CBN buying rate)**.

Below is the graphical representation of Domestic allocation to PPMC, Refinery Deliveries and Offshore processing:

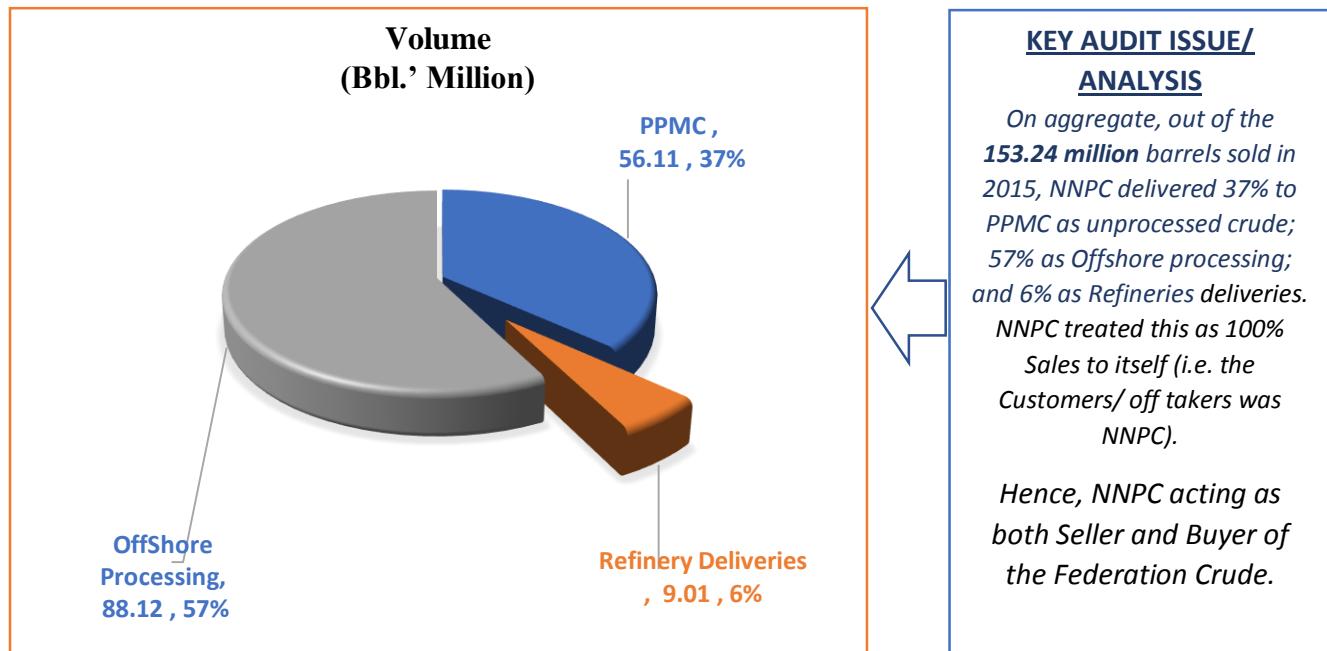


Figure 6.6.: 2015 Summary Analysis of Domestic Crude Oil Volume and Value

From the table and figure above:

- During validation with respect to PPMC Crude Oil Sales, audit identified two (2) cases of undisclosed invoices (Messrs. Mercuria Energy Trading SA) 336,895 barrels worth \$15.41 million and 423,347 barrels worth \$19.36 million.
- On aggregate, the dollar equivalent was \$7.775 billion (N1.505 trillion). NNPC converted on a monthly basis- i.e. January N167, February N195.58 (as against N197 CBN buying rate), March to June N196, July N195.95 (as against N196 CBN buying rate), August N196, September N196, October N195.95 (as against N195.98 CBN buying rate), November N196 and December N195.97 (as against N196 CBN buying rate).

Implication:

The audit observed inconsistent application of CBN exchange rate considering the fact NNPC do not convert on the date of invoice but aggregate all dollar invoices for the month and convert using “one” exchange rate, results to under payment of **N4.024 million** (on aggregate).

Recommendation:

NNPC should ensure consistent application of CBN exchange rate and should be applied on disaggregate basis (i.e. CBN exchange rate on the date of the transaction).

NNPC Response:

For cases relating to PPMC Crude Oil Sales as identified by the audit as undisclosed invoices (Messrs. Mercuria Energy Trading SA) 336,895 barrels worth \$15.41 million and 423,347 barrels worth \$19.36 million, below are the explanations:

- a. At the height of the illegal bunkering/theft activities along the Bonny-PHRC and Warri - KRPC pipelines, NNPC in a bid to sustain Crude Oil Supply to the nation's refineries, entered into a contractual agreement with a shipping company to engage in the following:
 - Load volumes allocated to indigenous refineries from Escravos, Bonny and sometimes Qua Iboe Terminals using mother vessels.
 - Transport the loaded volumes to the refineries through inland water ways using shuttle vessel.
- b. Above contract was terminated on 30th September, 2015. However, MT Maritime Jewel, the mother vessel used for supplying Crude Oil to WRPC/KRPC has an ROB (Remaining on Board) of about 763,571 barrels on board.
- c. The ROB volume could not be transshipped to WRPC/KRPC due to storage tank ullage constraints and unavailability of Warri-KRPC pipeline.
- d. The ROB volume was part of 1,098,130 BBLS invoice no: COS/09/DOM/009/2015, B/L date 20th September 2015.
- e. The total 1,098,130 BBLS as reported in September 2015 Refinery deliveries has been accounted and paid for.
- f. The 2 invoices (336,895 + 423,347) =760,244 BBLS were the ROB of the 1,098,130 BBLS accounted for in September 2015.

Below is the summary of the sales profile of NGC Gas during the year under review:

Table 6.16.: Domestic Gas (NGC) Sales Volume and Value (Sales Receivable)

2015		JV Ratio		CBN/ NNPC Share		JV Operator Share		100% Joint Venture - Volume & Value	
	NNPC	JV Operator	Volume	Value	Volume	Value	Volume	Value	
			MSCF'000	N'000	MSCF'000	N'000	MSCF'000	N'000	
Pan	60%	40%	5,139	1,431,151	3,426.20	954,100.67	8,565	2,385,252	

Ocean								
Chevron	60%	40%	69,916	19,355,180	46,610.65	12,903,453.20	116,527	32,258,633
Shell	55%	45%	1,902	544,649	1,556.45	445,621.99	3,459	990,271
Erotor	55%	45%	3,603	487,803	2,947.90	399,111.22	6,551	886,914
Total			80,561	21,818,783	54,541	14,702,287	135,102	36,521,070

Source: NGC Gas Sales Profile

Findings

From the table above, NNPC did not analyse NGC sales receivables. By implication, non-provision of analyzed schedule, among other things, which should indicate receipt in respect of previous years' sales proceeds, receipt in respect of current year sales proceeds, results to poor NGC sales receivable management on the part of NNPC.

Recommendations:

NNPC should always analyses NGC sales receivables and match it with actual sales receipt into the CBN- NNPC Domestic Gas Revenue (Naira) Account. The analyzed schedule, among other things, should indicate receipt in respect of previous years' sales proceeds and receipt in respect of current year sales proceeds.

NNPC Response:

Noted

6.10. Domestic Crude Oil Receivables Control Account

6.10.1. Analysis and Reconciliation of Outstanding Balance- Domestic Crude Oil

From the analysis of the validated NNPC-COMD Sales Value as recorded (i.e. Crude sales to PPMC; Off shore Processing; and Refinery deliveries) and the confirmation of actual domestic crude oil sales receipt into CBN-NNPC Domestic Crude Oil Revenue (Naira) Account, find below the summary explaining variance between the actual sales for the year and the actual sales receipts during the year under review.

Table 6.17.: Analysis and Reconciliation of Outstanding Balance - Domestic Crude Oil as at 31st December

2015		
	N'000	N'000
Balance as at 1st January (A)		762,927,742
Add: Sales		
(Ai)- Domestic Crude Oil Sales		
PPMC	548,244,637	
Refineries Deliveries	90,875,402	

Offshore Processing	865,740,506	
Less: Crude Oil First line Deductions		
Subsidy Deductions¹⁹	(316,720,838)	
Crude and Product Oil Losses²⁰	(60,997,115)	
Pipeline Repairs & Maintenance²¹	(112,818,483)	
Total Sales for the Year (B)		1,014,324,109
Total Receivables (C= A+B)		1,777,251,851
Less: Receipts		
Receipts into:		
CBN NNPC Crude Oil Revenue (Naira)		
Crude Oil- Prior year Receipt	428,885,255	
Crude Oil- Current Year Receipt	611,897,894	
Total Receipts (D)		1,040,783,149
Outstanding balance as at 31st December (E= C-D)		736,468,702
Balance as at 31st December (As Per NNPC Record)		(418,993,170)
Un-explained Difference²²		317,475,532

Source: Validated Sales Profile and analysed CBN-NNPC Domestic Crude Oil (Naira) Account.

From the table above:

- a. NNPC is expected to pay for domestic crude lifted into CBN- Crude Oil & Gas Revenue – Naira Account.
- b. On monthly basis, NNPC transfers into the bank account a lump sum, which CBN typically described as "**Multi Credit Entry - Transfer of NNPC Fund from pool account to Oil & Gas Account**".
- c. All transfers into CBN NNPC Domestic Crude Oil Revenue (Naira) Account are made net of Subsidy, Crude & Product Losses and Pipeline Repairs & maintenance.
- d. **N60.997 billion** accounted for "Crude and Product Oil losses"; **N112.818 billion** accounted for "Pipeline repairs & maintenance"; and **N316.721 billion** accounted for "Subsidy deduction".

Recommendations:

- a. NNPC should always generate schedules on pipeline repairs & maintenance that indicates among other things- the location of repairs, the cause of damages, the date damages occurred, the date repairs/ maintenance was carried; the names of vendor, the contract sum, cost paid and cost unpaid.

¹⁹ Subsidy deductions of N316.721 billion relates to approved subsidy and not subsidy estimate

²⁰ Crude and Product Oil Losses is explained in **Table 6.26 (Summary analysis of crude and product oil losses)**

²¹ Pipeline Repairs & Maintenance is explained in **Table 6.17 (Summary analysis of pipeline repairs and maintenance)**

²² **Un-explained Difference of N317.476 billion** represents un-reconciled/ unexplained sales receivable

- b. NNPC should adhere to the institutional framework of the Petroleum Support Fund (PSF) which requires, among other things, that all subsidy claims and payment should be drawn from the PSF.

Further Audit review:

- a. Below is the analysis of **N60.997 billion** accounted for “Crude and Product oil losses”;

Table 6.18.: Summary analysis of crude and product oil losses

Description of losses	N' Billion	%
Crude Losses	8.111	13.30%
Product Losses	52.886	86.70%
Total	60.997	100.00%

Source: NNPC- Capital Record on 2015 Expenses and Schedules- NNPC

- b. Below is the analysis of **N112.818 billion** accounted for “Pipeline repairs & maintenance”;

Table 6.19.: Summary analysis of expenses on pipeline repairs and maintenance

Description of Expenses	N' Billion	%
Fund releases for Salaries	22.105	19.59%
Share of Upfront	13.272	11.76%
Operations	3.275	2.90%
Through/ Marine	10.547	9.35%
Security	1.959	1.74%
Projects	1.355	1.20%
ITF Contribution	0.396	0.35%
PPPRA	0.641	0.57%
Others	0.614	0.54%
Crude Movement	24.215	21.46%
Facilities Repairs	4.124	3.66%
Products Distribution	11.373	10.08%
Refineries	3.057	2.71%
TUMA/OLOIBIRI	0.215	0.19%
Demurrage	15.670	13.89%
Total	112.818	100.00%

Source: NNPC- Capital Record on 2015 Expenses and Schedules- NNPC

Review of the table above indicates that facilities repairs accounted for 3.66% (N4.124 billion) of the total expenses on pipeline repairs and maintenance of N112.818 billion.

6.11. Summary of Payments Received into CBN–NNPC Crude Oil Revenue (Naira) Accounts

6.11.1. Matching Domestic Crude Oil Sales Value against Receipts into CBN-NNPC Domestic Crude Oil (Naira) Account

From review and validation of NNPC-COMD sales value as recorded (i.e. crude sales to PPMC; Off shore Processing; and Refinery deliveries); the confirmation of actual domestic crude oil sales receipt into CBN-NNPC Domestic Crude Oil Revenue (Naira) Account and 2014 NEITI audit report vis-à-vis explanation, find below the summary of the transactions and balances in CBN-NNPC Domestic Crude Oil Revenue (Naira) account for the year under review.

Table 6.20.: Summary of CBN-NNPC Domestic Crude Oil Revenue (Naira) Account

2015		
		N'000
Balance as at 1st January	(A)	314,592
Lodgements:		
Domestic Crude Proceeds- Prior Year		428,885,255
Domestic Crude Proceeds- Current year		611,897,894
Interest and Other Classified Lodgements*		76,164,376
Total Lodgement during the year	(B)	1,116,947,524
Total Inflow	(A+B)=C	1,117,262,116
Payments:		
Payment to Federation Account		1,088,462,752
Payment Reversal		2,410,024
Repayment of Debt		26,097,925
Total Outflow	(D)	1,116,970,701
Balance as at 31st December		291,416

Source: Validated Sales Profile & analyzed CBN Domestic Crude Oil Revenue (Naira) Account

From the table above:

- N291.416 million accounted for balance as at 31st December 2015.
- Interest and other classified lodgments*-** below is the analysis:

Table 6.21.: Summary of interest and other classified lodgments

Descriptions	2015
	N'000
Miscellaneous Receipts	3,343,672
Debt Repayment Funding	70,410,679
Reversed Lodgement**	2,410,024

- | | |
|--|------------|
| | 76,164,376 |
|--|------------|
- c. **Reversed Lodgment**-** this was a wrong posting by CBN into Crude Oil Naira Account on 29 October 2015 instead of Federation Account per NNPC mandate dated 23rd October 2015 and later corrected on 10 December 2015.

6.12. Summary of Payments Received into CBN-NNPC Gas Revenue (Naira) Accounts

6.12.1. Matching NGC Gas Sales Value against Receipts into CBN-NNPC Gas Revenue (Naira) Account

From review of NGC sales value as recorded vis-à-vis receipt into CBN-NNPC Domestic Gas Revenue (Naira) Account, find below the summary of the transactions and balances in CBN-NNPC Domestic Gas Revenue (Naira) account for the year under review:

Table 6.22.: Summary of CBN-NNPC Domestic NGC Gas Revenue (Naira) Account

2015		
		N'000
Balance as at 1st January	(A)	2,431,448
lodgements:		
Domestic NGC Gas Proceeds- Prior Year		15,888,496
Domestic NGC Gas Proceeds- Current year		12,373,269
Total Lodgement during the year	(B)	28,261,765
Total Inflow	(A+B)=C	30,693,213
Payments:		
Payment to Federation Account		26,151,234
Payment to JV operators		-
Total Outflow	(D)	26,151,234
Balance as at 31st December		4,541,980

Source: NGC Sales profile and analysed CBN NNPC Domestic Gas Revenue (Naira) Account

From the table above:

- N26.151 billion** was transferred to Federation Account per NNPC mandates to CBN.
- Domestic NGC Gas proceeds- prior year vis-à-vis current year was based on NGC classification and with no corroborating schedule/ analysis from NNPC.
- No transfer was made in respect of Joint Venture Cash Call funding account.

CHAPTER 7

7 CASH CALL

7.1 Brief on Cash Call Activities

The Nigerian Government, through NNPC-NAPIMS enters into Joint Venture arrangements with IOCs for petroleum exploration and production operations. This collaboration is aimed at sharing both financial and exploration risk in oil production. The partners in the arrangement appoint an operator who will manage the operations on behalf of the partners. On a yearly basis, the operator calls up other partners to provide funding for the operations based on each partner's equity and approved budget.

Currently the Federation has Nine (9) Joint Venture arrangements as describe below: -

Table 7.1 Schedule of Joint Venture Arrangement

S/N	JV	Operator	PARTICIPATORY INTEREST											
			NNPC %	SPDC %	MOBIL %	CHEVRON %	TOTAL %	NAOC %	POCNL %	POOCN %	AIT %	FE&P %	NCR %	
1.	SPDC JV	SPDC	55	30	-	-	10	5	-	-	-	-	-	
2.	MOBIL JV	MOBIL	60	-	40	-	-	-	-	-	-	-	-	
3.	CHEVRON JV	CHEVRON	60	-	-	40	-	-	-	-	-	-	-	
4.	TEPNG JV	TOTAL E&P	60	-	-	-	40	-	-	-	-	-	-	
5.	NAOC JV	NAOC	60	-	-	-	-	20	20	-	-	-	-	
6.	PAN OCEAN JV	PANOCEAN	60	-	-	-	-	-	-	40	-	-	-	
7.	NPDC/CHEVRON JV	NPDC	60	-	-	40	-	-	-	-	-	-	-	
8.	NPDC/SPDC JV	NPDC	55	30	-	-	10	5	-	-	-	-	-	
9.	AITEO JV	AITEO	55	-	-	-	-	-	-	-	45	-	-	
10.	EROTON/NNP	EROTON	55	-	-	-	-	-	-	-	-	45	-	
11.	NEWCOSS	NEWCROSS	55	-	-	-	-	-	-	-	-	-	45	

The JV arrangements in S/NOs 7 and 8 in **Table 7.1** above, relates to Non-Equity Assets operated by NPDC on behalf of NNPC the operatorship role aims to transfer knowledge/ technical capacity of NPDC to develop local capacity. This cash call relates to OMLs 11, 13, 20, 49 and 51. The arrangement is as presented below:

The OMLs relinquished by SPDC to NNPC and under the operatorship of NPDC are OMLs 13 and 20. OML 13 is licenced to operate within Utapate field while OML 20 operates within Egbema, Egbema West and Ugada fields.

I. NNPC (NPDC)/CHEVRON

The OMLs relinquished by CNL to NNPC and being operated by NPDC from the CNL JV are OMLs 49 and 51. The OMLs are licenced to operate within Aroh and Oghareki fields.

Finding:

The transferred asset by SPDC and NAOC has an outstanding liability against NPDC totalling **\$1.95billion** as presented below:

List of OMLs transferred to NPDC by NNPC with Dates						
JV Partner	OML	NNPC Equity Holding	Date of transfer	Consideration by DPR \$ Billion	Amount(s) Paid \$ Billion	Outstanding Balance \$ Billion
SPDC	4/38/41	55%	16/09/2010	1.8	0.100	1.7
SPDC	26/30/34/40/42	55%	21/04/2011			
NAOC**	60/61/62/63	60%	30/12/2012	2.225	1.3	0.925
TOTAL				4.025	1.4	2.625
Less Revaluation Amount				(0.671)	-	(0.671)
Total				3.354	1.4	1.954

The NAOC assets (OML60, 61, 62&63) was revaluated by DPR from 2.225billion to 1.554billion bringing the total outstanding liability to **\$1.95billion**. The revaluation was carried out due to formal complaint by NNPC and NPDC over the initial considerations. See appendix 17

7.2 Cash Call Budget

The NNPC present cash call budget to the National Assembly for parliamentary approval as required by the constitution. Based on the approved annual budget NAPIMS carry out its mandate of managing the investment activities of NNPC.

Cash calls funding are based on the Annual Work Programme of each Joint Operations, which covers all exploration, development, production, drilling, technical and administrative operations for both oil and gas.

NNPC calls for the meeting of the Cash Call Processing Committee upon the receipt of cash call request. This meeting deliberates on the request and agreed requests are signed off by all parties i.e. NNPC and other Partners including the Operator.

The total budget for the year is **\$7.359 billion** as presented below:

Table 7.2 JVCC Budget

S/N		US'Billon
1	JV Cash Call	5.336
2	National Domestic Gas Dev	1.307
3	Brass LNG Gas Supply Project	0.106
4	Crude Oil-Pre-Export Inspection Agency	0.020
5	Frontier Exploration Services	0.100
6	Gas Infrastructure	0.490
	Total	7.359

7.3 Funding into the Joint Venture Cash Call (JVCC) Account

The main operating bank accounts through which all cash call payments are paid is the JP Morgan Chase Joint Venture Cash Call Account. The main source for funding the JP Morgan Chase Joint Venture Cash Call are approved fund transferred from the JP Morgan Chase CBN/NNPC Crude Oil and Gas Revenue Account, JP Morgan Chase CBN/NNPC Gas Account, BIS Account and Interest earned on JVCC account.

All funds are appropriated for by the National Assembly before they are transferred from the JP Morgan Crude Oil and Gas Revenue Account to JP Morgan Cash Calls Accounts. In 2015, the total financial inflow into the cash call accounts was **\$6.151billion** as shown in Table 7. 3 below:

Table 7.3 Cash Call Funding in 2015

SUMMARY OF INFLOWS INTO CASH CALL ACCOUNT	
FUNDING	2015
	\$' 000
Inflows into JP Morgan JV Cash Call Account	6,150,628
Interest Earned	950
Interest on LC Elcee A/c – NESTOIL	83
Total Inflow	6,151,661

Source: JP Morgan Chase NNPC/CBN JV Dollar Cash Call Account.

7.4 Monthly Cash Call Funding

The monthly inflow into the Cash Calls Account showed that, Federal Government funding in 2015 was **\$6.151 billion**, while interest earned both all cash call account was **\$1,033,000**.

Table 7.4 Monthly Cash Call Funding

MONTH	CRUDE OIL REVENUE	INTEREST	TOTAL
	ACCOUNT	\$' 000	\$' 000
Opening Balance			1,646,066
January	615,797	89	615,886
February	589,202	72	589,274
March	320,797	10	320,807
April	612,891	21	612,912
May	502,386	26	502,412
June	338,103	35	338,138
July	388,149	224	388,373
August	-	421	421
September	419,411	19	419,430
October	271,994	26	272,020
November	445,786	25	445,811
December	46	65	111
Total	6,150,628	1,033	6,151,661

7.5. Cash Call Payments for 2015

Cash calls requests are made every month by each JV operator to the Federal Government through NNPC/NAPIMS to contribute its participating interest for advance payment in order to meet anticipated costs and expenditures. The summary of cash calls paid to JV operators in 2015 was **US\$4.370 billion** as enumerated below:

Table7.5: Total Cash Call Payments

	SOURCE CURRENCY		FUNCTIONAL CURRENCY
	NAIRA	DOLLAR	DOLLAR
	N '000	\$'000	\$'000
Shell Petroleum (SPDC)	127,779,141	450,085	1,100,592
Mobil Producing (MPNU)	77,663,804	400,837	796,213
Chevron Nig. (CNL)	90,855,542	402,383	864,917
Total Elf Nig. (TEPNG)	5,587,559	21,735	50,181
Nigeria Agip Oil Company (NAOC)	92,144,874	326,444	795,542
Pan Ocean Oil	102,209,713	160,461	680,797
Newcross Pet	1,330,571	751	7,525
First E&P	6,884,006	17,267	52,313
NPDC/CNL	1,561,846	3,638	11,589
NPDC/SPDC	1,039,321	5,688	10,979
Total	507,056,377	1,789,289	4,370,647

Source:2015 NAPIMS Templates, CBN, JP Morgan JV Dollar Cash Call Account, NNPC/CBN JV Naira Cash Call Account and entities' Templates

7.6 Other Budgetary Cash Call Expenditure

The Audit revealed that, there was Gas Infrastructure Development expenditure totalling **\$0.099 billion** which was budgeted for as presented in table 7.6

Table7.6: Other Budgetary Expenditure

Expenditure Narration	Budget Provision	Actual Expenditure	Variance	%Variance
	US\$ Billion	US\$ Billion	US\$ Billion	
National Domestic Gas Development	1.307	0	1.307	100%
Brass LNG Gas Supply Projects	0.106	0	0.106	100%
Crude Oil Pre-Export Inspection Agency	0.02	0	0.02	100%
Frontier Exploration Service	0.1	0	0.1	100%
Gas Infrastructure Development	0.49	0.099	0.391	80%
Total	2.023	0.099	1.924	95%

Source: 2015 Validated NAPIMS Templates, CBN, JP Morgan JV Dollar Cash Call Account, NNPC/CBN JV Naira Cash Call Account and entities' Templates

7.7 Non-Cash Call Expenditure

The total non-cash call expenditure in 2015 was **\$597.86 million** as presented in table 7.7 below

Table 7.7 Non-Cash Call Expenditure

NATURE OF PAYMENT	SOURCE CURRENCY		FUNCTIONAL CURRENCY
	\$'000	N'000	\$'000
NAPIMS ADMINISTRATIVE FEES	238,058	-	238,058
PAYMENTS FOR SECURITY	292,571	2,997,206	307,829
TRAININGS	345	-	345
WHT AND VAT	2,139	673,378	5,567
TRAVELLING AND ACCOMMODATION	1,952	1,035,245	7,222
SURVEY AND SAND SEARCH	884	419,276	3,018
TRANSFER (NESS FEES)	-	6,073,572	30,920
COMPUTER ACCESSORIES	39		39
CONSULTANCY	34	948,321	4,862
Total	536,022	12,146,998	597,861

Findings

- The sum of **\$597,861 million** was paid from the cash call account without appropriation.
- The non-Cash Call transactions of \$597.86million were funded from both the CBN/NNPC JP Morgan Chase Cash Call Dollar Account and CBN/NNPC JV Naira Cash Call account without appropriation.
- This amount paid out represents about 11 per cent of the national cash call budget or 14 per cent of cash call paid out to JV operators.
- The sum of \$238.058 million was collected as 3% Administrative Fee by NAPIMS.

Recommendations:

- Subsequent expenditures should be funded from NNPC overhead budgets and not the cash call budget.
- NAPIMS should operate a separate account where all administrative and overhead are paid into to allow adequate accountability
- Payment for security expenditure amounting to US\$307.83million made to Nigerian Intelligence Agency, Nigerian Navy should be discontinued forthwith, and future request for security funding for oil and gas facilities should be funded from the National Defense budget so as not to put unnecessary pressure on cash call cash flows.

7.8 Comparison of Budgeted Cash Call to Actual Funding

The Audit revealed that there was an under funding of the cash call budget by \$1.207billion representing 16.4%. The total budget for 2015 was US\$7.359billion however the total financial inflow in the year under review was **US\$6.152billion** as presented in table 7.8 below.

Table 7.8 Comparison of Budgeted Cash Call to Actual Funding

S/NO		2015
		\$'000 Billion
A	National Budget Provisions	7.359
B	Cash Call Financial Funding	6.152
	Variance	1.207
	Budget Performance	16.40%

Source: 2015 Validated NAPIMS Templates and Budget

7.9 Comparison of Cash Call Funding to Cash Call Expenditures

The Audit revealed that cash call funding of **\$6.152 billion** exceeded the total NAPIMS expenditure of **\$5.067 billion** by **\$1.084 billion** representing 17.62%. However, there was under funding of the budget by **\$1.207billion** representing **16.40%**.

Table 7.9 Comparison of Cash Call Funding to Cash Call Expenditures

S/NO	2015		
		\$'000	\$'Billion
1	National Budget Provisions		7.359
2	Cash Call Inflow for 2015		
	Government Funding of JP Morgan JV Cash Call Account	6,151,628	
	Interest Earned	1,033	
	Total Inflow	6,152,661	6.152
3(A)	Cash Call Payments to JV Operators	(4,370,647)	
3(B)	Other Budgetary Expenditure	(99,000)	
3(C)	Non- Cash call payments	(597,861)	
	Total Payments (A+B+C)	(5,067,508)	
3	Variance (2-3)	1,085,153	
	Variance (1-3)		1.207
4	% of Variance	17.64%	16.40%

Source: JP Morgan NNPC/CBN JV Cash Call Account and National Approved Budget (2015)

7.10 CASHCALL PAYMENT TREND ANALYSIS (2011-2015)

The table below shows a five years trend analysis of cash call funding.

Table 7.10 Summary of Cash Call Paid by NAPIMS to JV Operators

S/N	ENTITY	FIVE YEAR SUMMARY OF CASH CALL PAID TO JV OPERATORS						% change 2014 & 2015
		2011	2012	2013	2014	2015		
		US\$	US\$	US\$	US\$	US\$		
		000	000	000	000	000		
1	NNPC/SPDC/TEPNG/NAOC	1,600,465	1,845,417	1,988,784	1,659,852	1,100,592	(33.69)	
2	NNPC/MPN	760,479	1,155,964	1,036,133	1,326,960	795,389	(10.64)	
3	NNPC/CNL	1,262,710	1,377,237	1,148,131	1,325,669	864,917	(34.76)	
4	NNPC/TEPNG	787,547	898,543	832,346	891,002	796,213	(73.97)	
5	NNPC/NAOC	565,575	710,840	652,468	638,055	680,797	(40.06)	
6	NNPC/POOCN	194,262	196,646	186,835	192,804	50,181	6.70	
7	NPDC/CNL	6,321	3,361	2,734		11,589	100	
8	NPDC/SPDC	6,446	9,628	13,523		10,979	100	
9	NNPC/FIRST E & P					7,525	100	
10	NNPC/NEWCROSS E & P					52,313	100	
	TOTAL	5,183,805	6,197,636	5,860,954	6,034,342	4,370,495	(27)	

Source NEITI Audit Reports, 2015 NAPIMS Template

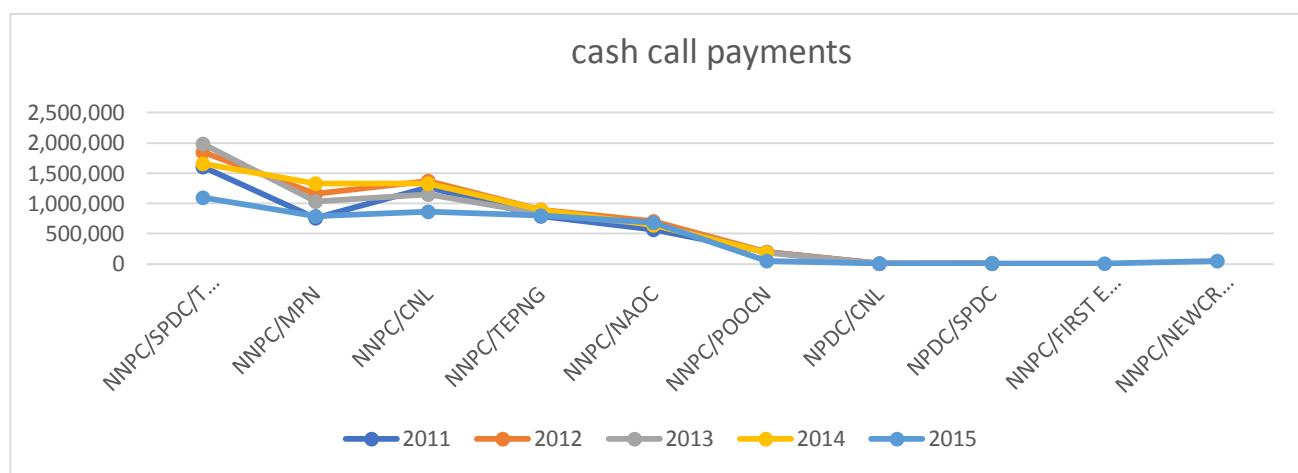


Figure 7.1 Cash Call Payments

Findings:

- Total Cash call paid to JV operators in 2015 dropped by 27.58% from \$6.034billion in 2014 to \$4.370billion. The under-funding affected almost all the Oil majors as cash call received by them fell on the average by 50% except NAOC that received a raise of 11% above 2014

payments. The decline in payment of cash call to JV operators could be attributed to economic melt-down and low oil prices that resulted in the decline of oil revenue

- There were payments to First E. & P and Newcross E. & P. they are new indigenous J V Operators. First E. & P is the JV operator of OML 83 and 85, while Newcross E. & P. is the JV operator of OML 24.
- First E. & P and Newcross E. & P did not populate data templates nor attend the reconciliation workshop organized.

7.11 Cash Call Liability/Arrears Due in 2015

The Audit revealed that the established Federation liability for NNPC/SPDC/TEPNG/NAOC and NNPC/MPN Joint Venture Arrangement is **\$2,206,257,189**. However, as at the time of this audit, Nigeria is in the process of exiting cash call financing model opting for Alternative Funding Arrangements²³.

Table 7.11 Cash call Liabilities and Arrears

S/NO	JV PARTNERS	JV OPERATOR(s)	PARTICIPATING INTEREST (%)	CASH CALL ARREARS (US\$)
1	NNPC/SPDC/TEPNG/NAOC	SPDC	55%/30%/10%/5%	1,372,505,467
2	NNPC/MPN	MPN	60% / 40%	833,751,722
	Total			2,206,257,189

Source 2015 NAPIM's Document

NNPC Response to the Findings

a. **EXPLANATION ON OTHER PAYMENTS FROM APPROPRIATIONS FOR UPSTREAM PETROLEUM OPERATIONS.**

In the course of 2015 Oil and Gas Industry audit, NEITI auditors observed that certain payments were affected out of the upstream appropriations, which they do not regard as Cash-call for JV operations. It should be noted that the total budget for upstream operations as approved by the National Assembly is made up of averagely the following components, which together constitute the cash-call on the Federation account:

- Government contributions to Production costs

²³

<http://www.nnpcgroup.com/PublicRelations/NNPCinthenews/tabid/92/articleType/ArticleView/articleId/693/Exit-of-Cash-Calls-Agreement-to-Usher-in-Investment-in-Oil-Sector.aspx>.

- National Domestic Gas Development
- Gas Infrastructure Development
- Brass LNG Gas supply projects
- Crude oil Pre-Export Inspection Agencies Expense
- Frontier Exploration Services

From the **Government Contributions to Production costs**, we have the following:

- Monthly cash calls payments to Joint operating account of Joint Ventures
- Monthly NAPIMS Management Fee to cater for NAPIMS staff salaries, allowances, overheads and capex expenditures. NAPIMS supervises the Joint Venture operations on behalf of Federal Government and therefore entitled to management fee.
- Payment to security agencies for providing security services for smooth operations in the Niger Delta Region.

Therefore, the following facts should be noted and clearly understood.

- The items listed above constitute the **total cash-calls** on the Federation Account for the funding of the upstream sector.
- Monthly Payments by NNPC to JV Operations accounts of the various Joint Ventures is **only one component of cash call on Federation account**.
- NAPIMS Management Fee is for defraying its expenses for the task of supervising and monitoring the government investments in upstream operations and is in line with best practices.
- All the components as described are necessary expenditures to achieve government aspirations in the upstream sector of oil and gas industry.

CHAPTER 8

8 COMPANY LEVEL FINANCIAL FLOW

8.1. Introduction

The following financial flows were reconciled using the primary source documents and third-party confirmations to ensure completeness, correctness, accuracy and reliability of data/information.

The following revenue stream were validated and reconciled:

1. Petroleum Profits Tax (PPT)
2. Royalty on Oil
3. Royalty on Gas
4. Company Income Tax (CIT) on Gas
5. Education Tax (EDT)
6. Signature Bonus
7. NESS Fee
8. NDDC Levy
9. NCDMB Payments
10. Gas Flared Penalty
11. Licence and Acreage Rental
12. Pipeline Transportation Fee
13. Dividend, Interest and Loan Repayment by NLNG

8.1.1 Validation Process

The validation of the financial flows entailed analysing populated templates as reported by the covered Entities as against the primary source documents such as bank statements, vouchers, receipts, invoices, Audited Accounts and where applicable third-party confirmations were sought to ensure completeness and accuracy of data/information. The validation process involved reviewing the populated template against internal financial ledgers relating to the relevant payments. Bank statements and issued receipts were reviewed against data from the populated templates to confirm correctness and completeness. Where there were, discrepancies and incoherent data/information in the data populated, the discrepancies were resolved by reviewing the source documents and the correct position established, thus enhancing data quality.

8.1.2 Reconciliation Process

Upon completion of the validation process, a tripartite reconciliation meeting was held having in attendance, Government Agencies, Oil Companies and the Auditors, with NEITI serving as observers to the process. The reconciliation of financial flows involves comparing the validated templates of

the operating companies with the validated templates of the government agencies. The Covered Entities and the Auditor signed off all reconciled reports. For ease of reference the financial flows were reported in US Dollars

8.2 Petroleum Profit Tax (PPT)

The Petroleum Profit Tax Act (PPTA) is the tax law responsible for the governing of the taxation of companies engaged in petroleum operations in Nigeria. The Act defines petroleum operations as “the winning or obtaining and transportation of petroleum or chargeable oil in Nigeria by or on behalf of a company for its own account by any drilling, mining, extracting or other like operations or process, not including refining at a refinery, in the course of a business carried by the company engaged in such operations, and all operations incidental thereto and sale of or any disposal of chargeable oil by or on behalf of the company”¹

By this definition, Petroleum Profit Tax is applicable to the upstream sector of the petroleum industry²⁴.

Petroleum Profit Tax payments are either paid through direct financial transactions or In-Kind depending on the operating contract of the company. For Joint Ventures arrangements payments are made on company level basis. While in Production Sharing Contract (PSC), PPT payments to FIRS are based on oil well/field, these payments are In-Kind meaning NNPC lifts crude in lieu of financial payment for PPT liabilities where applicable.

The PPT rates vary as follows:

- 50% for petroleum operations under production sharing contracts (PSC) with the Nigerian National Petroleum Corporation (NNPC).
- 65.75% for non-PSC operations, including joint ventures (JVs), in the first five years during which the company has not fully amortized all pre-production capitalized expenditure.
- 85% for non-PSC operations after the first five years.

Table 8.1 Petroleum Profit Tax

S/N	COMPANY NAME	GOVERNMENT		COMPANY USD	DIFFERENCE USD
		USD	USD		
1	ADDAX -APDNL	37,977,250	37,977,250		-
2	ADDAX -APENL	35,584,992	35,584,992		-
3	AENR (Service Contract)				
4	AITEO***				

²⁴ www.firs.gov.ng/Tax-Management/Tax%20Legislations/PPTA.pdf.

5	ALLIED***			
6	AMNI	7,221,198	7,221,198	-
7	ATLAS***			
8	BRITTANIA-U			
9	CHEVRON	185,853,946	185,853,946	-
10	CON OIL	17,445,000	17,445,000	-
11	CONTINENTAL OIL	10,045,000	10,045,000	-
12	DUBRI OIL***			
13	ELCREST E&P**			
14	ENERGIA***			
15	EROTON#			
16	EXPRESS***			
17	FIRST HYDROCARBON	200,000	200,000	-
18	FRONTIER OIL**			
19	MIDWESTERN	8,936,979	8,936,979	-
20	EEPNL	647,534,375	647,534,375	-
21	EEPNL(OE)L*			-
22	MOBIL PRODUCING	1,136,547,876	1,136,547,876	-
23	MONI PULO	1,857,873	1,857,873	-
24	ND WESTERN LIMITED**			
25	NECONDE**			
26	NETWORK E&P***			
27	NEWCROSS	80,000	80,000	-
28	NDPR	71,609	71,609	-
29	NAOC	62,139,546	62,139,546	-
30	NAE*			
31	NPDC	400,000,000	400,000,000	-
32	OANDO HYDROCARBONS	2,000,000	2,000,000	-
33	OANDO OML 125 & 134*			
34	OPDC LTD*			
35	OANDO QUA IBO LTD*			
36	ORIENTAL**			
37	PAN OCEAN	570,321	570,321	-
38	PETROBRASS	104,481,111	104,481,111	-
39	PILLAR	410,768	410,768	-
40	PLATFORM			

41	PRIME***			
42	SEPLAT**			
43	SHEBAH***			
44	SNEPCO	1,104,942,000	1,104,942,000	-
45	SPDC			-
46	SHORELINE**			
47	SOUTH ATLANTIC*			
48	STAR DEEP	549,247,763	549,247,763	-
49	STATOIL	755,516,374	755,516,374	-
50	STERLING*			
51	TEPNG	85,374,310	85,374,310	-
52	TUPNI	66,616,740	66,616,740	-
53	UNIVERSAL*			
54	WALTERSMITH	3,725,888	3,725,888	-
MCAs				
	Total E&P Nigeria Limited	20,055,781	20,055,781	
	CHEVRON	16,970,978	16,970,978	
	SPDC	60,168,000	60,168,000	
	NIGERIAN AGIP COMPANY	62,139,547	62,139,547	
	Sub Total	5,383,715,225	5,383,715,225	
Unilateral Disclosure				
55	SUMMIT OIL AND GAS	1,593,005	-	1,593,005
56	SUNTRUST OIL COMPANY LTD	4,559,219		4,559,219
	Sub Total	6,152,224		6,152,224
	TOTAL	5,389,867,449	5,383,715,225	6,152,224

* These entities did not pay PPT due to recovery of cost/Loss

** These are entities enjoying pioneer status

*** These companies did not make payment in 2015

****Payments was made by Operators

Eroton acquired the asset in 2015, hence the non-payment of PPT

The above table showed that Mobil and Shell Nigeria Exploration and Production Company (SNEPCO) contributed 30.46% and 30.76% respectively making them the highest entity paying Petroleum Profit Tax (PPT) into the Federation Account.

8.2.1 Findings on Petroleum Profit Tax.

Below are findings on PPT

- The total PPT payment in 2015 was \$5,389,867,449 as against \$10,322,683,225 which represent 48% drop in PPT payment
- Payments of PPT was based on the Court ruling in 2015 where the ruling on pricing mechanism of Crude Oil was giving in favour of the oil company, where they were advised on the use of RP as against OSP.
- The entities and DPR agreed on the new pricing to be used which the entities complied with.
- We observed that 8 entities as presented below were granted tax holidays for five (5) years straight instead of the normal three (3) years at first instance, and thereafter additional two (2) years after satisfying conditions set by the NIPC for the first grant²⁵.

S/NO	NAME OF ENTITY	DATE GRANTED	PERIOD COVERED
1	Shoreline Natural Resources	16-12-2013	5 years
2	Neconde Energy	27/5/2013	5 years
3.	ND Western	Effect from the date of commencement of production	not specified
4.	Platform	19-06-2013	5 years
5.	Newcross	19-06-2013	5 years
6.	Elcrest	01-5-2014	5 years
7	ORIENTAL	01-6- 2011	5 years
8	NDPR	01-2-2010	5 years

Recommendations

- In order not to abuse the process, NIPC should adhere to the rules and guidelines on granting companies pioneer status.
- NIPC should collaborate with FIRS on the update of companies granted pioneer status.
- Only qualifying companies should be granted pioneer status relief and not bought over companies.

²⁵ Details on guidelines on pioneer status can be obtained from <http://www.invest-nigeria.com/pioneer-status-incentives-document/>

8.3. Education Tax

Education Tax is a 2% rate charge on assessable profits of a registered company in Nigeria. The administration of this Tax is governed by the Education Tax Act 7 of 1993 and amended by Act No 40 of 22nd December 1998. Every Nigerian company chargeable under the Company Income Tax (CIT) and the Petroleum Profit Tax (PPT) is expected to pay Education Tax.

The table below shows the summary of Education Tax. The total Education Tax received in 2015 was **\$667,770,142**.

Table 8.2: Education Tax

S/N	COMPANY NAME	GOVERNMENT	COMPANY	DIFFERENCE
		USD	USD	USD
1	ADDAX -APDNL	21,379,399	21,379,399	-
2	ADDAX -APENL	7,096,059	7,096,059	-
3	AENR	3,811,429	3,811,429	-
4	AITEO***			
5	ALLIED***			
6	AMNI	1,731,556	1,731,556	-
7	ATLAS***			
8	BRITTANIA-U***			
9	CHEVRON NIG. LTD	42,421,505	42,421,505	-
10	CON OIL	1,228,000	1,228,000	-
11	CONTINENTAL OIL	658,000	658,000	-
12	DUBRI OIL	5,471,000	5,471,000	-
13	ELCREST E&P**			
14	ENERGIA	6,647	6,647	-
15	EROTON#			
16	EXPRESS***			
17	FIRST HYDROCARBON***			
18	FRONTIER OIL**			
19	MIDWESTERN***			
20	EENL	60,702,541	60,702,541	-
21	EEN(OE)L	53,709,382	53,709,382	-
22	MOBIL PRODUCING	81,258,565	81,258,565	-
23	MONI PULO	354,706	354,706	-
24	ND WESTERN**			
25	NECONDE**			

26	NETWORK E&P***			
27	NEWCROSS**			
28	NDPR	51,724	51,724	-
29	NAOC	11,935,045	11,935,045	-
30	NAE	4,224,833	4,224,833	-
31	NPDC***			
32	OANDO HYDROCARBONS	5,697,296	5,697,296	-
33	OANDO OML 125 & 134*			
34	OPDC LTD*			
35	OANDO QUA IBO LTD*			
36	ORIENTAL**			
37	PAN OCEAN***			
38	PETROBRS	17,560,307	17,560,307	-
39	PILLAR	206,865	206,865	-
40	PLATFORM	243,000	243,000	-
41	PRIME*			
42	SEPLAT**			
43	SHEBAH*			
44	SNEPCO	86,076,000	86,075,000	1,000
45	SPDC	39,371,000	39,371,000	-
46	SHORELINE**			
47	SOUTH ATLANTIC****			
48	STAR DEEP	56,192,983	56,192,983	-
49	STATOIL	51,139,660	51,139,660	-
50	STERLING*			
51	TEPNG	28,253,660	28,253,660	-
52	TUPNI	80,621,946	80,621,946	-
53	UNIVERSAL*			
54	WALTERSMITH	717,771	717,771	-
	MCAS			
	MOBIL PRODUCING	4,661,183	4,661,183	
	CHEVRON NIG. LTD	734,595	734,595	
A	SUB TOTAL RECONCILED ENTITIES	667,516,657	667,515,657	1,000
B	UNILATERAL DISCLOSURE			
55	AFREN ENERGY RESOURCES LTD	144,597	-	144,597
56	SASOL EXPLORATION	2,809		2809

57	SUMMIT OIL & GAS LIMITED	106,079		106,079
B	SUB TOTAL (B)	253,485	-	253,485
	TOTAL(A+B)	667,770,142	667,515,657	254,485

Source: 2015 Validated Template

Note: * These entities did not pay education Tax due to recovery of cost/loss

** These are entities enjoying pioneer status

*** These companies did not make payment in 2015

**** Payment was made by the operator

Eroton acquired the asset in 2015, hence the non-payment of EDT

8.4 Royalty Oil

The total Revenue flow from Royalty Oil in 2015 was \$ 2,784,534,312 as presented below

Table 8.3. Royalty Oil

S/N	COMPANY NAME	GOVERNMENT	COMPANY	DIFFERENCE
		USD	USD	USD
1	ADDAX -APDNL	66,603,034	66,603,034	-
2	ADDAX -APENL	62,407,584	62,407,584	-
3	AENR (Service Contract)			-
4	AITEO	17,243,109	17,243,109	-
5	ALLIED	2,085,451	2,085,451	-
6	AMNI	13,504,615	13,504,615	-
7	ATLAS	4,383,497	4,383,497	-
8	BRITTANIA-U	300,000	300,000	-
9	CHEVRON NIG. LTD	320,244,608	320,244,608	-
10	CON OIL	3,223,000	3,223,000	-
11	CONTINENTAL OIL	24,623,000	24,623,000	-
12	DUBRI OIL	593,000	593,000	-
13	ELCREST E&P	7,968,000	7,968,000	-
14	ENERGIA	1,908,733	1,908,733	-
15	EROTON***			-
16	EXPRESS***			-
17	FIRST HYDROCARBON	2,293,132	2,293,132	-
18	FRONTIER OIL	163,149	163,149	-
19	MIDWESTERN	20,674,276	20,674,276	-
20	EENL	117,661,330	117,661,330	-
21	EEN(OE)L			-

22	MOBIL PRODUCING	624,408,585	624,408,585	-
23	MONI PULO	8,392,850	8,392,850	-
24	ND WESTERN LIMITED	14,250,000	14,250,000	-
25	NECONDE	7,968,000	7,968,000	-
26	NETWORK E&P	946,373	946,373	-
27	NEWCROSS	180,000	180,000	-
28	NEWCROSS E & P NIGERIA LTD	17,243,109	17,243,109	
29	NDPR	2,250,386	2,250,386	-
30	NAOC	117,257,745	117,257,745	-
31	NAE			-
32	NPDC	301,193,925	301,193,925	-
33	OANDO HYDROCARBONS	18,747,756	18,747,756	-
34	OANDO OML 125 & 134**			-
35	OPDC LTD**			-
36	OANDO QUA IBO LTD**			-
37	ORIENTAL	64,643,672	64,643,672	-
38	PAN OCEAN	1,249,950	1,249,950	-
39	PETROBRASS*			-
40	PILLAR	1,236,242	1,236,242	-
41	PLATFORM	150,000	150,000	-
42	PRIME	293,027	293,027	-
43	SEPLAT	105,367,897	105,367,897	-
44	SHEBAH***			-
45	SNEPCO	79,775,000	79,775,000	-
46	SPDC	299,697,000	299,697,000	-
47	SHORELINE	9,362,000	9,362,000	-
48	SOUTH ATLANTIC*			-
49	STAR DEEP*			-
50	STATOIL	165,222	165,222	-
51	STERLING	64,289,428	64,289,428	-
52	TEPNG	241,820,969	241,820,969	-
53	TUPNI*			-
54	UNIVERSAL***			-
55	WALTERSMITH	3,202,591	3,202,591	-
	MCAs			-
	Total E&P Nigeria Limited	5,523,271	5,523,271	-
	SPDC	17,697,000	17,697,000	-

	NIGERIAN AGIP COMPANY	16,757,417	16,757,417	-
	MOBIL	94,190,569	94,190,569	-
	SUBTOTAL RECONCILED ENTITIES	2,784,139,502	2,784,139,502	-
	UNILATERAL DISCLOSURE			-
56	ACCUGAS LIMITED	30,350	0	30,350
57	NEWTON ENERGY LIMITED	364,460	0	364,460
	SUBTOTAL UNILATERAL DISCLOSURE	394,810	0	394,810
	TOTAL	2,784,534,312	2,784,139,502	394,810

Source: 2015 Validated Template

Note: * Exempted from paying royalty due to operating level

** These are entities that are into a business arrangement where the operating partners pays

*** These companies did not make payment in 2015

Findings

There was a significant drop in total royalty oil payment from **\$5,695,018,127** received in 2014 to **\$2,784,534,312** revenue in **2015**, this represent **51% (\$2,910,483,815)** decrease.

- i. Royalty Oil payable as per validated record shows an outstanding liability of **\$ 324,925,064** against these entities as presented below:

		Computation by IA	Computation by Entity	Under Assessment	Payment by Entity	Amount outstanding for collection
		USD\$	USD\$	USD\$	USD\$	USD\$
1	AMNI	12,154,277	12,154,277	-	12,134,471	19,806
2	ENERGIA	1,889,749	1,889,749	-	1,879,351	10,398
3	NPDC	298,592,159	26,409,022	272,183,137		272,183,137
4	UNIVERSAL ENERGY	808,500	319,279	489,221		
5	AITEO	33,364,516	32,818,880	545,635.79	17,243,109	16,121,407
7	BRITTANIA –U	689,486	689,486		300,000	389,486
8	EROTON	30,698,103	30,698,103	49,369		30,698,103
9	FIRST HYDROCARBON	4,904,887	4,870,506	34,381	2,293,132	2,611,755
10	PRIME	693,147	693,147		293,027	400,120

11	MONI PULO LIMITED	8,507,793	8,495,925	11,868.00	6,016,941	2,490,852
	TOTAL	392,302,617	119,038,374	273,313,612	40,160,031	324,925,064

Note: These reported liabilities were as at 31st December 2015. It should however be noted that some of these companies have offset the liabilities after 31st December 2015.

- i. AITEO, First Hydrocarbon and MONI PULO LIMITED disputed the additional liability of under assessment on the basis of price election
- ii. Pillar oil undersold its crude oil to the value of \$825,590.22, which resulted in an additional tax liability of \$701,750.69 due to price election used by the auditor.

	Entity	Computation by IA	Computation by Entity	Under/(Over) Assessment	Additional Liability (85%)
		USD\$	USD\$	USD\$	USD\$
1	Pillar oil Ltd	29,957,003	29,131,413	825,590	701,751.5
	Total	29,957,003	29,131,413	825,590	701,751.5

Entity's response: Pillar Oil

Pillar Oil accepted the computation, with the price election but argued that "the additional income of \$825,590.22 does not attract a flat rate of 85% tax liability; the company still has unutilized capital allowance claimable which was not considered in the computation".

- iii. Network E&P pays all financial flows for Oando Qua Ibo Ltd, Energeia pays all financial flows for OPDC as the operators while NAE pays on behalf of OANDO OML 125 & 134 Ltd.
- iv. Sheba did not pay royalty for the period under review both for itself and its partner Express.
- v. First E&P claimed 65.75% as Royalty rate (as per PPT computation) as against 85% which result to \$609,402.14 additional liability.

Entities Response (First E&P)

- a) The use of 85% by the auditor is accepted; however, the additional liability arising for this assessment is not accepted due to the price election used by the Auditor.

8.5 NLNG Payments

The Nigeria Lignified Natural Gas Limited (NLNG) is a joint venture company owned by four shareholders, namely, the Federal Government of Nigeria, represented by Nigerian National Petroleum Corporation (49%); Shell Gas BV. (25.6%); Total LNG Nigeria Limited (15%) and Eni International N.A.N.V.S ar.l (10.4%). The company was incorporated as limited liability company on

May 17th, 1989 to harness Nigeria's natural gas resource through production and export of Liquefied Natural Gas (LNG) and Natural Gas Liquids (NGL)²⁶.

8.5.1 Nigeria Investment in NLNG

Table 8.4: Federation Investment Profile in NLNG

	<i>Principal Loan 1995-2005</i>	<i>Interest Capitalized</i>	<i>Total Loan</i>	<i>Repayment to Date</i>	<i>Balance</i>
Total Shareholders, Loan	4,043,924,266	1,411,027,387	5,454,951,652	(5,319,816,516)	135,135,135
NNPC 49.00%	1,981,522,890	691,403,419	2,672,926,309	(2,606,710,093)	66,216,216

Source: 2015 NLNG Validated Template

The total Federation loan/investment in the NLNG project was **\$2,672,926,309** as at December 2015, out of which **\$2,606,710,093**, have been liquidated leaving an outstanding balance of **\$66,216,216**.

8.5.2 Loan Repayment, Interest and Dividend

For the period under review, NLNG paid a total of \$1,076,011,598 to NNPC as loan repayments, interest and dividend. The dividend accrued to the federation in 2015 was 1,043,764,965 representing 97% of the total revenue stream while interest and principal repayment was **\$3,111,498(0.29%)** and **\$29,135,135 (2.71%)** respectively.

Table 8.5: Summary of Loan Repayment, Interest and Dividend Payment

	<i>Amount \$</i>
DIVIDEND	1,043,764,965
INTEREST	3,111,498
PRINCIPAL	29,135,135
Total	1,076,011,598

Source: 2015 Validated Template

²⁶ Details on NLNG operations and activities <http://www.nlng.com/nignlng/home.aspx>.

Findings

- I. NNPC confirmed receipt of **\$1,043,764,965** paid as dividend by NLNG into its NNPC Depository Account with JP Morgan Chase Bank, but this amount was not transferred to the Federation Account.
- II. NNPC did not confirm receipt of loan repayments and interest paid totalling **\$32,246,633**.

Recommendations

- I. NNPC should confirm and account for its entire share in the NLNG business.
- II. Since Income from NLNG is for the Federation investment in the Project, the income generated from the investment should be paid directly into the Federation Account with CBN.

8.5.3 NLNG Income Payments (2000-2015)

The total payment from NLNG in the past fifteen years was **\$16,898,725,000**, with the highest payment recorded in 2012.

Table 8.6 Total NLNG Dividend, Interest and Loan Repayment

Year	Amount \$
2000	211,341,000
2001	322,077,000
2002	226,562,000
2003	436,272,000
2004	280,095,000
2005	207,282,000
2006	332,980,000
2007	842,957,000
2008	2,613,170,000
2009	879,839,000
2010	1,427,512,000
2011	2,537,503,000
2012	2,795,531,000
2013	1,289,592,000
2014	1,420,000,000
2015	1,076,012,000
Total	16,898,725,000

Sourced NEITI Audit Reports & 2015 NLNG Validated Template

8.6 Pipeline Transportation (Revenue) Fee

Pipeline Transportation Fee are payments made by crude oil producers for the use of oil pipeline infrastructure to transport produced crude oil to terminals (it applies only to crude oil). The JV companies mainly the IOCs construct these pipelines. The NNPC (Federation) has equity holdings in these JV companies, the equity of the federation ranges from 55% like in the SPDC JV arrangement to 60% in the Mobil, NAOC and Chevron JV arrangements. This implies that the cost of setting up these pipelines is shared between the JV partners and by extension, any benefit (fee) that accrues from the usage of the crude oil pipelines by third parties injecting crude at various points for onward transport to any terminal is shared amongst the parties in a manner commensurate to the partners' equity holding. The operator of the JV assets determines the fee paid by third party injectors onto the pipeline infrastructure.

Table 8.7. Pipeline Transportation Fee

PIPELINE TRANSPORT FEE				
		Source Currency		Functional Currency
S/N	COMPANY NAME	\$	N	\$
1	SHELL DEVELOPMENT COMPANY (SPDC)	16,561,626	1,580,849,336	24,609,524
	TOTAL	16,561,626	1,580,849,336	24,609,524

Source: 2015 Validated Template

Findings

- I. The total Pipeline Transportation Fee was \$ **24,609,524**, this represented 55% counterpart share of Federation (NNPC) in the SPDC/NNPC Joint Venture infrastructural development of Oil Pipeline.
- II. These fees were paid directly to NNPC as part of its share of the JV arrangements.

8.7 NDDC Levy

NDDC was established in 2000 with the mandate of facilitating the rapid even and sustainable development of the Niger Delta into a region that is economically prosperous, socially stable, ecologically regenerative and politically peaceful. Pursuant to Section 14 (b) of the NDDC Act, the Commission collect 3% of the total annual budget of any oil producing company operating onshore and offshore in the Niger Delta area, including gas processing companies²⁷.

²⁷ NDDC Acts, functions and mandates <http://www.nddc.gov.ng/about%20us.html>, <https://docs.google.com/gview?url=http://www.nddc.gov.ng/theNDDCACT.pdf&embedded=true>.

The total contribution from covered entities for 2015 was \$387,621 as presented in the table below

Table 8.8 NDDC Levy

S/N	COMPANY NAME	GOVERNMENT	COMPANY	DIFFERENCE
		USD	USD	USD
1	ADDAX -APDNL	13,901,464	13,901,464	-
2	ADDAX -APENL	23,696,196	23,696,196	-
3	AENR	936,923	936,923	-
4	AITEO**			
5	ALLIED**			
6	AMNI	1,497,986	1,497,986	-
7	ATLAS**			
8	BRITTANIA-U**			
9	CHEVRON NIG. LTD	24,708,729	24,708,729	-
10	CON OIL**			
11	CONTINENTAL OIL**			
12	DUBRI OIL	25,454	25,454	-
13	ELCREST E&P*			
14	ENERGIA	1,212,724	1,212,724	-
15	EROTON**			
16	EXPRESS**			
17	FIRST HYDROCARBON*			
18	FRONTIER OIL**			
19	MIDWESTERN**			
20	EENPL	33,744,520	33,744,520	-
21	EENPN(OE)L	31,222,625	31,222,625	-
22	MOBIL PRODUCING	48,185,196	48,185,196	-
23	MONI PULO**			
24	ND WESTERN LIMITED*			
25	NECONDE*			
26	NETWORK E&P**			
27	NEWCROSS**			
28	NDPR**			
29	NAOC	6,888,867	6,888,867	-
30	NAE	20,695,108	20,695,108	-
31	NPDC	7,447,463	7,447,463	-
32	OANDO HYDROCARBONS**			

33	OANDO OML 125 & 134*			
34	OPDC LTD*			
35	OANDO QUA IBO LTD**			
37	ORIENTAL	764,000.00	764,000.00	-
38	PAN OCEAN**			
39	PETROBRASS*			
40	PILLAR	515,634.00	515,634.00	-
41	PLATFORM	450,000.00	450,000.00	-
42	PRIME**			
43	SEPLAT*			
44	SHEBAH**			
45	SNEPCO	43,602,457	43,602,457	-
46	SPDC	23,164,343	23,164,343	-
47	SHORELINE*			
48	SOUTH ATLANTIC*			
49	STAR DEEP	25,624,424	25,624,424	-
50	STATOIL	7,945,646	7,945,646	-
51	STERLING	814,539	1,705,441	(890,902)
52	TEPNG	18,054,680	18,054,680	-
53	TUPNI	50,952,751	50,952,751	-
54	UNIVERSAL	410,763	410,763	-
55	WALTERSMITH**			-
	Sub Total	386,462,492	387,353,394	(890,902)
	Unilateral Disclosure			
56	AFREN ENERGY RESOURCES LIMITED	764,000		764,000
57	TEXACO NIGERIA OUTER SHELF LIMITED 2015	394,319		394,319
	Sub Total	1,158,319		1,158,319
	TOTAL	387,620,811	387,353,394	267,416

Source:2015 Validated Templates

Note: *These are entities that are into a business arrangement where the operating partners paid on behalf of other partners

** These companies did not make payment in 2015

Findings

- I. There was an unreconciled sum of **N175,000,000 (\$890,902)** being payment made by Sterling Oil Exploration. The audit revealed that Sterling paid the naira equivalent of **\$890,902**, which was not traceable to NDDC bank account
- II. There was a unilateral disclosure of **\$1,158,319** by two companies in 2015
- III. NPDC paid NDDC Levy, on behalf of its operating partners namely
 - First Hydro Carbon OML 26,
 - Shoreline OML 30,
 - ND Western OML 34,
 - Elcrest OML 40,
 - Neconde OML 42
- IV. Seplat is the operator of OMLs 4,38 &41 and makes payment on behalf of its partners, however payments were not made until 2016.
- V. NAE paid for Oando OML (125&134) Ltd, while Energia paid on behalf Oando Petroleum Development Company LTD
- VI. Network E&P did not pay the NDDC levy either for itself or for partner Oando Qua Ibo Ltd.
- VII. 2015 NDDC Levy revenue of **\$387,620,811** is less than the 2014 revenue of **\$846,080,662** by **\$458,459,851**.

There was an outstanding liability of **\$ 32,568,142** against the under listed entities

		NDDC				Payment by Entity	Amount outstanding for collection USD\$
		Computation by IA	Computation Entity	by	Under/(Over) Assessment		
		USD\$	USD\$	USD\$	USD\$	USD\$	USD\$
1	ENERGIA	674,525			674,525		674,525
2	ORIENTAL	3,617,656		1,831,556	1,786,100		1,786,100
3	AITEO	88,877		88,876.70		-	226,330
4	BRITTANIA – U	82,500		-	82,500	-	82,500.00
5	PILLAR OIL LTD	487,146		487,146		-	487,146.00
6	SEPLAT	14,582,981		14,582,981		-	14,582,981
7	MONI PULO	1,703,582		1,703,582	1,703,582	-	1,703,582.
8	STATOIL	18,179,806		18,179,806		5,154,828.00	13,024,978.
	TOTAL	39,417,073		36,873,948	4,246,707	5,154,828	32,568,142

Recommendations

- I. Sterling and NDDC should reconcile the identified difference of **\$890,902**
- II. Seplat, monipulo provided evidence of paying the outstanding liabilities in 2016
- III. NDDC should embark on an aggressive revenue recovery drive to recover outstanding levies from entities in line with the Act.

8.8 NCDMB Levy

The Nigerian Content Development and Monitoring Board (NCDMB) was established by the Nigerian Oil and Gas Industry Content Development Act (NOGICD) of 2010 to promote the development and utilization of in-country capacities for the industrialization of Nigeria through the effective implementation of the Nigerian Content.

Section 104 of the Nigerian Oil & Gas Industry Content Development (NOGICD) Act of 2010 provides that 1% of every contract in the upstream sector of the Nigeria Oil and Gas industry shall be deducted at source and paid into the Fund²⁸.

The total NCDMB levy received in 2015 was **\$135,827,809** as against **\$169,986,877** received in 2014; this represents **\$34,159,068 (20.10%)** decrease.

Table 8.9: NCDMB Total Financial Flow

S/N	COMPANY NAME	GOVERNMENT	COMPANY	DIFFERENCE
		USD	NCDMB	NCDMB
1	ADDAX -APDNL	3,692,792	3,692,792	-
2	ADDAX -APENL	2,218,226	2,218,226	-
3	AENR	155,424	155,424	-
4	AITEO**			
5	ALLIED**			
6	AMNI	440,108	440,108	-
7	ATLAS**			
8	BRITTANIA-U**			
9	CHEVRON NIG. LTD	10,302,164.84	10,302,164.84	-
10	CON OIL**			
11	CONTINENTAL OIL**			

²⁸ Guidelines and Act of NCDMB <http://ncdmb.gov.ng/images/GUIDELINES/NCACT.pdf>

12	DUBRI OIL**			
13	ELCREST E&P*			
14	ENERGIA	125,177.84	125,178	-
15	EROTON**			
16	EXPRESS**			
17	FIRST HYDROCARBON*			
18	FRONTIER OIL	243,456	243,456	-
19	MIDWESTERN	930,293	930,293	-
20	EEPNL	12,274,988	12,274,988	
21	EEP(NOE)L	6,893,797	6,893,797	-
22	MOBIL PRODUCING	9,761,209	9,761,209	-
23	MONI PULO	69,184	69,184	-
24	ND WESTERN LIMITED*			
25	NECONDE*			
26	NETWORK E&P**			
27	NEWCROSS**			
28	NDPR	221,631	221,631	-
29	NAOC	6,271,877	6,271,877	-
30	NAE	4,820,362	4,820,362	-
31	NPDC	5,779,062	5,779,062	-
32	OANDO HYDROCARBONS	9,887	9,887	-
33	OANDO OML 125 & 134*			
34	OPDC LTD*			
35	OANDO QUA IBO LTD**			
36	ORIENTAL**			
37	PAN OCEAN**			
38	PETROBRASS	20,055	20,055	-
39	PILLAR	54,713	54,713	-
40	PLATFORM	35,103	35,103	-
41	PRIME**			
42	SEPLAT**			
43	SHEBAH**			
44	SNEPCO	8,289,820	8,289,820	-
45	SPDC	18,418,984	18,418,984	-
46	SHORELINE*			
47	SOUTH ATLANTIC*			

48	STAR DEEP	10,703,319	10,703,319	-
49	STATOIL	19,671	19,671	-
50	STERLING	880,183	880,183	-
51	TEPNG	11,296,912	11,296,912	-
52	TUPNI	21,852,208	21,852,208	-
53	UNIVERSAL	47,202	47,202	-
54	WALTERSMITH**			
	TOTAL	135,827,809	135,827,809	-

Source: 2015, Validated Templatized

*These are entities that the operating partners paid on their behalf

** These companies did not make payment in 2015

Findings

- i. JV traditional partners notably SPDC, NAOC, MOBIL, TEPNG and Chevron contributed \$56,046,091 representing 43% of total contributions
- ii. NPDC paid NDDC Levy, on behalf of its operating partners namely
 - First Hydro Carbon OML 26,
 - Shoreline OML 30,
 - ND Western OML 34,
 - Elcrest OML 40,
 - Neconde OML 42,
- iii. Seplat neither paid NCDMB levy nor for its partner(s) on OML 4,38 & 41 in 2015
- iv. NAE paid for Oando OML (125&134) Ltd, while Energia paid on behalf Oando Petroleum Development Company LTD.
- v. Network E&P neither paid NCDMB levy nor for its partner Oando Qua Ibo Ltd.
- vi. 8 PSC companies namely TUPLIN, EEPN(OE)L, SNEPCO, NAE, APENL, APDNL, STARDEEP and SEEPCO made a total contribution of \$66,706,188 representing 51% of total NCDMB Revenue
- vii. Payments were made based on invoiced contract sum as against the lump sum of the contracts
- viii. Reconciliations are not done on a monthly basis
- ix. Total liability of **\$408,942** and **₦ 14,752,661** was established against the under listed entities for non-payment of the accurate NCDMB Levy of 1% on contracts.

Computation by IA			Computation by Entity		Under/(Over) Assessment	
	USD\$	N	USD\$	N	USD\$	N
1	FRONTIER	168,352	14,752,661	168,352		14,752,661
2	MIDWESTERN	645,329		236,387		408,942
		813,681	14,752,661	404,739		408,942
						14,752,661

Recommendations

- I. Reconciliations should be done either monthly or quarterly to avoid misstatements
- II. Efforts should be intensified to ensure that more companies contribute their quota
- III. The outstanding liabilities against the defaulting companies should be recovered

8.9 Gas Flare Penalty

Gas Flared Penalty is a form of penalty imposed on oil and gas companies for flaring gas in the course of productions. The Petroleum Act 1969 is the primary law regulating oil and gas exploration activities in Nigeria however over the years other regulations have been enacted such as the Petroleum (Drilling and Production) Act 1979, the Associated Gas Re-Injection Act 1979 (as amended), Associated Gas Re-injection (Continued Flaring of Gas) Regulations, 1984, Cap. 26 Laws of the Federation of Nigeria, 1990 and of recent the National Gas policy.

This Act imposes a penalty for gas flaring which is meant to serve as a deterrent for the burning of gas associated with crude oil production that pollutes the environment amongst others. The gas flare penalty fee used in the year under review was N10/ thousand standard cubic feet (Mscf), this amount falls short of the \$3.5 approved in January 2008. Payments of the penalties are based on Companies Self-Assessment and this subject to DPR reassessment subsequently. Assessments are carried out in Naira, but payments are made in US Dollars into the designated JP Morgan Accounts

Table 8.10: Total Gas Flared Penalty

S/N	COMPANY NAME	GOVERNMENT		COMPANY	DIFFERENCE
		USD	USD		
1	ADDAX -APDNL	2,788,723.00	2,788,723.00		-
2	ADDAX -APENL	155,465.00	155,465.00		-
3	AENR***				
4	AITEO***				
5	ALLIED***				
6	AMNI	109,163.00	109,163.00		-
7	ATLAS	45,851.00	45,851.00		-

8	BRITTANIA-U***			
9	CHEVRON NIG. LTD	995,209.00	995,209.00	-
10	CON OIL	7,229.73	7,229.73	-
11	CONTINENTAL OIL	82,000.00	82,000.00	-
12	DUBRI OIL	79,000.00	79,000.00	-
13	ELCREST E&P*			
14	ENERGIA	261,994.00	261,994.00	-
15	EROTON***			
16	EXPRESS*			
17	FIRST HYDROCARBON*			
18	FRONTIER OIL***			
19	MIDWESTERN	119,289.00	119,289.00	-
20	EENL	1,271,385.00	1,271,385.00	-
21	EEN(OE)L	927,634.00	927,634.00	-
22	MOBIL PRODUCING	1,106,147.00	1,106,147.00	-
23	MONI PULO	27,058.00	27,058.00	-
24	ND WESTERN LIMITED*			
25	NECONDE*			
26	NETWORK E&P	32,760.00	32,760.00	-
27	NEWCROSS	96,000.00	96,000.00	-
28	NDPR	142,676.00	142,676.00	-
29	NAOC	411,066.76	411,066.76	-
30	NAE	1,750,444.00	1,750,444.00	-
31	NPDC***			
32	OANDO HYDROCARBONS	49,679.00	49,679.00	-
33	OANDO OML 125 & 134*			
34	OPDC LTD*			
35	OANDO QUA IBO LTD*			
36	ORIENTAL	54,580.00	54,580.00	-
37	PAN OCEAN***			
38	PETROBRASS*			
39	PILLAR	10,733.00	10,733.00	-
40	PLATFORM	81,000.00	81,000.00	-
41	PRIME***			
42	SEPLAT***			
43	SHEBAH*			

44	SNEPCO	176,000.00	176,000.00	-
45	SPDC	540,000.00	540,000.00	-
46	SHORELINE*			
47	SOUTH ATLANTIC*			
48	STAR DEEP	753,703.00	753,703.00	-
49	STATOIL*			
50	STERLING	7,219	7,219	-
51	TEPNG	464,721	464,721	-
52	TUPNI	116,973	116,973	-
53	UNIVERSAL	19,376	19,376	-
54	WALTERSMITH**			
	TOTAL	12,683,078	12,683,078	-

Source: 2015 Validated Templates

* Non-Operators

** Companies that did not flare gas

***These companies did not make payments in 2015

Findings

Below are specific findings relating to gas flared penalties

- I. Total revenue from gas flare penalty in 2015 was **\$ 12,683,078** as against **\$13,215,454** received in 2014 representing 4.03% (**\$532,376**) in revenue from gas flared.
- II. Four (4) companies namely APDNL, NAE and MOBIL, EEPN(OE)L contributed \$6,916,699 representing 54.54% of the total gas flared penalty paid in 2015.
- III. The total volume of gas flared in 2015 was **317,505.59 mmscf** representing 9.49% of the total gas produced i.e. **3,250,667.66 mmscft** in 2015.
- IV. Gas production data was not obtained from the following entities; Allied Energy, Atlas, Britannia U, New Cross, Prime E&P and Sheba E&P.
- V. The current gas flared penalty charge at 10/1000mscf has not served as a deterrent to gas flaring by companies. If the FEC approved rate of 3.5\$ per 1000mscf had been applied in 2015, gas flared penalty would have been **\$1,111,252,625** as against the actual collection of **\$ 12,683,078**, meaning an extra **\$1,098,569,547** would have accrued
- VI. The outstanding gas flared liability was **\$6,230,267** as enumerated below: -

Table 8.11 Gas Flared Penalty Liability

		Computation by IA	Computed by Entity	Under/(Over) Assessment/Liability	Payment by Entity	Amount outstanding for collection
		USD\$	USD\$	USD\$	USD\$	USD\$
1	NPDC	1,023,174	-	1,023,174		1,023,174
2	Oando Hydrocarbon	193,637	49,679	143,957		143,957
3	ORIENTAL	120,166	-	120,166		120,166
4	AMIN	2,916,817	-	2,916,817		2,916,817
5	ENERGIA	381,605	144,418	237,187		237,187
6	MID WESTERN	102,621	86,400	16,221		16,221
7	TEPNG	229,573	45,995	183,578		183,578
8	AITEO	267,837	267,837		-	267,837
9	ATLAS	151,023	151,023		-	151,023
10	BRITTANIA –U	6,012	6,012		-	6,012
11	EROTON*	90,623	90,623		-	90,623
12	PILLAR OIL LTD	14,557	14,557		-	14,557
13	PRIME	20,450	20,450		-	20,450
14	SEPLAT	411,042	411,042		-	411,042
15	STAR DEEPWATER*	891,656	891,656		682,352	209,304
16	CHEVRON*	965,098	965,098		806,998	158,100
17	MONI PULO*	16,867	16,867		11,855	5,012
18	Pan Ocean	1,866	-	1,866		1,866
19	Frontier	3,297	-	3,297		3,297
20	AENR	250,044	-	250,044		250,044
	TOTAL	8,057,965	3,161,657	4,896,307	1,501,205	6,230,267

Note: * the outstanding liabilities were paid in 2016/2017

Recommendations

- I. Full implementation of the new policy on minimal flaring as approved by the Federal Executive Council should commence; this will lead to a reduction in pollution rate and enhance government revenue from increased utilization of gas hitherto flared.
- II. Covered entities should be encouraged to provide relevant data as at when due to ease reconciliation.

- III. DPR should ensure that all applicable gas flared liabilities are paid by the operating companies
- IV. Government should enforce the new gas flared regime to deter gas flared on the one hand and promote investment in gas utilization and infrastructure development.

8.10 Signature Bonus

Details of license renewal fees paid in 2015 but erroneously captured and classified by DPR as signature bonus is in the table below. Furthermore, Sterling Oil made payment in relation to OPL 2004 on behalf of its associated company. Unilateral disclosure by Homeland & Overseas Limited, Gynia Holding Limited and Cayman Limited totalling \$56,830,250.00 could not be validated nor confirmed.

Table 8.12 Signature Bonus

S/N	COMPANY NAME	GOVERNMENT	COMPANY	DIFFERENCE
		USD	USD	USD
1	ATLAS	1,000,000.00	-	1,000,000.00
2	CHEVRON	477,840,000.00	477,840,000.00	-
3	EENP(OE)L	116,000,000.00	120,000,000.00	(4,000,000.00)
4	NAOC	27,328,000.00	27,328,000.00	-
5	SPDC	163,966,000.00	163,966,000.00	-
6	STERLING	5,100,000.00	5,100,000.00	-
7	Total E&P Nigeria Limited	54,656,000.00	54,656,000.00	-
	SUB TOTAL	845,890,000.00	848,890,000.00	(3,000,000.00)
	UNILATERAL DISCLOSURE			
8	HOMELAND & OVERSEAS LIMITED	500,000	-	
9	GYNIA HOLDING LIMITED	40,250,250	-	
10	CAYMAN LIMITED	16,080,000	-	
	SUB TOTAL	56,830,250.00	-	
	TOTAL	902,722,250	848,890,000.00	(3,000,000.00)

Source: 2015 Validated Template

Findings

- I. For the period under review, payments totaling **\$902,722,250** that were made by companies as premium for licence renewals were credited into the signature bonus account.
- II. An unreconciled difference of **\$3,000,000** was observed from payments made by EEPN (OE)L and Atlas.

- III. The total sum of **\$902,722,250** includes unilateral disclosure of **\$56,830,000** by Homeland & Overseas Limited, Gynia Holding Limited and Cayman Limited.

Recommendation

- I. There should be proper classification of receipts in respect of Lease renewal(s) as against the current practice.

8.11 Royalty Gas

Companies pay royalty on gas based on production and sales of gas. Royalty gas is the sum paid by a Concessioner for the quantity of gas produced and sold. The applicable royalty rates on gas are: Onshore 7% of gas sale and Offshore 5% of gas sale.

Royalty on gas is payable to DPR and paid into Chase J Morgan Bank Account domiciled with CBN. It is paid in US Dollar. The table 8.13 below shows the details of Royalty Gas

Table 8.13 Royalty Gas

S/N	COMPANY NAME	GOVERNMENT	COMPANY	DIFFERENCE
		USD	USD	USD
1	CHEVRON	19,775,183.00	19,775,183.00	-
2	NAOC	13,251,518.00	13,251,518.00	-
3	NDPR	750,574.00	750,574.00	-
4	SPDC	40,890,000.00	40,890,000.00	-
5	TEPNG	25,509,853.00	25,509,853.00	-
MCAS				
6	NAOC	1,312,014.00	1,312,014.00	
7	SPDC	2,418,000.00	2,418,000.00	
8	TEPNG	3,252,961.00	3,252,961.00	
TOTAL		107,160,103.00	107,160,103.00	-

Source: 2015 Validated Template

Findings

- I. The total royalty on gas received by Government in 2015 was **\$107,160,103** as against **\$62,361,743 received in 2014**, representing an increment of **\$44,798,360 (58.19%)**
- II. PSC contract agreement did not cover gas production hence PSC did not account for gas produced or injected to third parties.
- III. The under listed companies sold gas, however there was no evidence of payment of royalty in 2015. The accrued liability from the gas injected based on payment evidence of 2015 sums up to **\$64,451,690**.

Table 8.14 Gas Produced and sold

	Royalty on Gas	Computation by I. A		Computation by Entity	Payment by Entity	Amount outstanding for collection
	Gas Sales Volume mmscf	USD\$	USD\$	USD\$	USD\$	USD\$
1	EROTON	9,556.56	19,427,665	19,427,665		19,427,665
2	CHEVRON*	189,803.24	20,796,521	20,796,521	16,983,447	3,813,074
3	AITEO	422.6	90,521	-		90,521
4	SNEPCO	422.6	7,028,341.11	-		7,028,341
5	NPDC	142,233.57	20,319,081.43	-		20,319,081
6	FRONTIER	25,610.42	2,563,685	-		2,563,685
7	PAN-OCEAN	8,565.49	1,223,641.43	-		1,223,641
8	SEPLAT	69,899.77	9,985,681	-		9,985,681
	TOTAL	446,514.25	81,435,136.97	40,224,186.00	16,983,447.00	64,451,690

Source: 2015 Validated Template

Findings

- I. Chevron paid the outstanding liability in 2016
- II. Frontier oil has an outstanding liability of 2839,078.72 from January 2014 to 31st December, 2015

8.12 Company Income Tax on Gas (CIT Gas)

The total CIT on Gas in 2015 was \$ 603,498,835

Table 8.15 CIT Gas

S/N	COMPANY NAME	GOVERNMENT	COMPANY	DIFFERENCE
		USD	USD	USD
1	AENR	12,358,698	12,358,698	-
2	CHEVRON	82,236,248	82,236,248	-
3	ENERGIA	99,700	99,700	-
4	MIDWESTERN	15	15	-
5	MOBIL PRODUCING	124,959,547	124,959,547	-
6	NAOC	83,715,437	83,715,437	-
7	OANDO HYDROCARBONS LTD	16,543,729	16,543,729	-
8	PLATFORM	2,002,961	2,002,961	-
9	SPDC	130,985,000	130,985,000	-

10	TOTAL E&P NIGERIA LIMITED	124,793,138	124,793,138	-
	MCAS			-
11	TOTAL E&P NIGERIA LIMITED	15,479,143	15,479,143	-
12	SPDC	9,636,000	9,636,000	-
	SUB TOTAL	602,809,616	602,809,616	-
	UNILATERAL DISCLOSURE			
13	AFREN ENERGY RES LTD	663,911	-	663,911
14	CCC OIL & GAS LIMITED	11,265	-	11,265
15	SASOL E&P	14,043	-	14,043
	SUB TOTAL	689,219	-	689,219
	TOTAL	603,498,835	602,809,616	689,219

Source: 2015 Validated Template

Findings

From the forgoing,

- I. CIT on gas increased in 2015 by **\$81,671,366** representing **13.56%**. The total CIT in 2015 was **\$603,498,835** as against **\$521,827,468.19** in 2014
- II. The unilateral disclosure in 2015 was 689,219, representing 0.11%

8.13 Licence and Acreage Rental

Concessional Licence and Acreage Rental is paid on oil. The total Licence and Acreage Rental In 2015 was **\$1,006,428** as presented below:

Table 8.16 License and Acreage Rental

S/No	COMPANY NAME	GOVERNMENT	COMPANY	DIFFERENCE
		USD	USD	USD
1	ADDAX: APENL	47,000	47,000	-
2	ATLAS	11,561	11,561	
3	CHEVRON NIG. LTD (CNL)	123,184	123,184	-
4	CON OIL	48,608	48,608	-
5	CONTINENTAL	25,260	25,260	-
6	ESSO	22,882	22,882	-
7	MOBIL	48,662	48,662	-
8	NEWCROSS	9,879	9,879	-

9	NIGERIAN AGIP COMPANY	94,992	94,992	-
10	SEPLAT	54,170	54,170	-
11	SEPCO	31,767	31,767	-
12	SPDC	291,115	291,115	-
13	SAPETRO	38,850	38,850	-
14	STARDEEP	25,558	25,558	-
15	STAT OIL	27,543	27,543	-
16	TUPNI	18,393	18,393	-
	Sub Total	919,463	919,463	-
	Unilateral Disclosure			
17	AFREN EXPLORATION	4,420	-	
18	SAHARA	8,687	-	
19	AMALGAMATED	4,028	-	
20	CAVENDISH	19,325	-	
21	EMERALD	50,505	-	
	Sub Total	86,965	-	
		1,006,428	919,463	

Source: 2015 Validated Template

Findings

- I. The total Licence and Acreage Rental revenue collected by government in 2015 was **\$1,006,428**
- II. The total unilateral disclosure is **\$86,965** representing 8.64%.

8.14 NESS FEE

The Pre-shipment Inspection of Exports Act was enacted in 1996, which requires the setting up of a scheme tagged the Nigeria Export Supervision Scheme. The scheme requires exporters to make statutory payments called (NESS) Fee to the Federal Government, which is 0.12% of FOB value. The scheme requires the appointment of Pre-shipment Inspection Agents (PIAs), Monitoring, and Evaluation Agents (MEAs) to monitor exporters under the supervision of the Federal Ministry of Finance (FMF) while the NESS secretariat, domiciled in Central Bank of Nigeria (CBN) manages the implementation of the Scheme.

The table below shows the total number of covered entities that paid Ness Fee in 2015

Table: 8.17 NESS FEE PAID

S/N	COMPANY NAME	GOVERNMENT	COMPANY	DIFFERENCE
		USD	USD	USD
1	ADDAX APDNL	575,887	575,887	-
2	ADDAX APENL	197,813	197,813	-
3	AENR	154,560	154,560	-
4	AITEO	24,695,189	24,695,189	-
5	AMNI	345,539	345,539	-
6	CHEVRON NIG. LTD (CNL)	1,887,483	1,887,483	-
7	DUBRI OIL	4,241	4,241	-
8	ELCREST	20,883	20,883	-
9	ENERGIA LIMITED	116,296	116,296	-
10	EROTON	24,367	24,367	-
11	FIRST HYDROCARBON	18,332	18,332	-
12	MIDWESTERN	117,453	117,453	-
13	EENP(OE)L	787,175	787,175	-
14	MOBIL PRODUCING	4,191,810	4,191,810	-
15	NAE	464,390	464,390	-
16	NAOC	710,725	710,725	-
17	ND WESTERN	208,827	208,827	-
18	NECONDE	98,880	98,880	-
19	OANDO HYDROCARBONS LTD	268,335	268,335	-
20	ORIENTAL	379,129	379,129	-
21	PETROLEO BRASILEIRO	1,011,596	1,011,596	-
22	PILLAR	33,952	33,952	-
23	PLATFORM	31,395	31,395	-
24	PRIME	89,881	89,881	-
25	SAPETRO	535,698	535,698	-
26	SEPLAT	641,990	641,990	-
27	SHORELINE	79,967	79,967	-
28	SNEPCO	1,795,825	1,795,825	-
29	SPDC	1,691,085	1,691,085	-
30	STAR DEEP	2,412,223	2,412,223	-
31	STATOIL	547,905	547,905	-
32	STERLING	257,963	257,963	-
33	TOTAL E&P NIGERIA LIMITED	1,985,169	1,985,169	-

34	TUPNI	1,011,195	1,011,195	-
35	UNIVERSAL	31,790	31,790	-
36	WALTERSMITH	78,636	78,636	-
	TOTAL	47,503,586	47,503,586	-

Source: 2015 Validated Templates

Findings

- i. The total Ness fee collected in 2015 was **\$ 47,503,586** as against **\$38,875,310** in 2014, this represent a 22.19% (**\$8,628,276**) increase.
- ii. Companies records were validated against bank statements and teller receipt issued by the receiving banks, however due to the non-availability of CBN bank statements the audit could not validate the governments record.
- iii. CBN used PIA and MEA's Report to populate NESS template as against bank statements
- iv. Total Ness fee reported by CBN was **\$21,488,431 (₦4,220,974,630)**
- v. Based on CBN available record, 88 oil companies with Nigerian Export Proceeds Form Number (**NXP Number**) exported 544,871,473 bbl. of crude oil with FOB value of \$28,707,865,543. The concerned companies paid a NESS fee of ₦4,220,387,234 as against ₦ 6,690,155,992 payable, leaving an outstanding liability of ₦ 2,469,768,758 payable by these companies. Appendix 18A contain list of companies with NXP Number alongside their liability.
- vi. A further review of CBN record showed that, 39 oil companies have no NXP Number. The 39 companies exported 231,712,199 bbl. of crude oil with a FOB value of **\$11,885,814,632**. They paid a NESS fee of **₦587,396** against **₦2,793,767,675** payable, leaving an outstanding liability of **₦ 2,793,180,279**. Appendix 18 B contains list of companies without NXP No. alongside their liability.
- vii. The non-availability of NXP number hinders efficient tracking of NESS fee payment status.
- viii. NESS Fee liability as per company record was **\$102,196** as enumerated below:

		Computation by IA	Computation by Entity	Under/(Over) Assessment	Payment by Entity	Amount outstanding for collection
		USD\$	USD\$	USD\$	USD\$	USD\$
1	ORIENTAL	427,074	379,129	47,942		47,942
2	ENERGIA	96,118	58,055	38,063		38,063
3	First Hydrocarbon	21,120	21,120	-	18,332	2,788
4	PRIME	103,284	103,284	-	89,881	13,403
	Total	3,534,239	3,448,231	86,005	2,520,436	102,196

Recommendations

From the foregoing, it is recommended that:

- i. For subsequent Audit, CBN should populate NESS Fee Template using the bank statements.
- ii. Ness Fee templates should be designed for other stakeholders in the NESS scheme chain such as Department of Trade Federal Ministry of Finance, Pre-Shipment Inspection Agents (PIA) and Monitoring and Evaluation Agents (MEA).
- iii. Collecting Banks should ensure that no exporter form is process without NXP Number.
- iv. Future audit should cover transactional cost for running the NESS Scheme.

CHAPTER 9

9 PHYSICAL AUDIT

9.1 Brief on Physical Audit

The Physical Audit involves reporting on quantity of crude oil produced, imported, exported and used for local consumption. It also covers other areas such as:

- Quantity of crude oil produced and the balance at the terminals before export.
- The basis for costing of Government's share of the crude produced
- Quantity of crude oil lifted by the parties
- Processes and level of Government's utilization of its share of crude oil
- Allocations to the Federal Government
- How refined products are imported and distributed
- How much gas is produced and sold, in the country
- The various agreements on production and licencing

9.2 TOTAL CRUDE OIL PRODUCTION AND LIFTING

The total crude oil production in 2015 was 776,668mbbls, which is less than 2014 production figure of 798,542mbbls by **21,874 mbbls** representing **2.74%** drop, as presented below:

Table 9.2: Total Crude Oil Production and Lifting

PRODUCTION	2014		2015	
	Mbbls	mbbls	Mbbls	mbbls
Total Production	798,542	776,668		
Total Opening stock	16,288	20,141		
Zafiro Crude ²⁹	4,063	3,700		
Total stock for liftings	818,893	800,509		
Terminal adjustment/shrinkage ³⁰	-	-		
Available total Terminal stock	818,893	800,509		

²⁹ Zafiro crude represents the production from the unitized zone operated by Nigeria and Mobil Equatorial Guinea which is not included in the Operating Companies' production in Nigeria, but has been included in the total lifting Operators and NNPC

³⁰ Shrinkage or Terminal adjustments represent losses due to evaporation and drainage of the crude in the terminals during the process of removing water and sediments in the period that the crude stayed in the tanks before export

LIFTING		
Federation Export		
Joint Venture Operators (JV)	83,637	159,784
Production Sharing Contractors (PSCs)	103,793	87,869
Sole Risk	-	40
Marginal Fields	-	1,792
Service Contractors (SCs)	1,991	370
Sub-Total Federation Export	189,421	249,855
Domestic Lifting (Refinery & Export)		
Joint Venture Operators (JV)	156,337	61,644
Production Sharing Contractors (PSCs)	3,864	1,837
Service Contractors (SCs)	-	-
PPMC Domestic Crude Supply (Refining / Sales)	160,201	63,481
Sub-Total: Federation + Domestic Lifting	349,622	313,336
Company Liftings:		
Joint Venture Operators (JV)	158,060	155,957
Production Sharing Contractors (PSCs)	211,939	231,455
Service Contractors (SCs)	830	2,183
Sole Risk	59,203	54,757
Marginal Fields	16,901	22,741
Sub-Total: Other Operators	446,933	467,093
Total Lifting	796,555	780,429
Balance closing stock	22,338	20,080
Source: NEITI 2014 – 2015 COMD Record		

Figure 9.1: TOTAL CRUDE OIL PRODUCTION

The figure above reveals that total crude oil production in 2015 dropped from the 2014 level by **21,874 mbbls (2.74%)**.

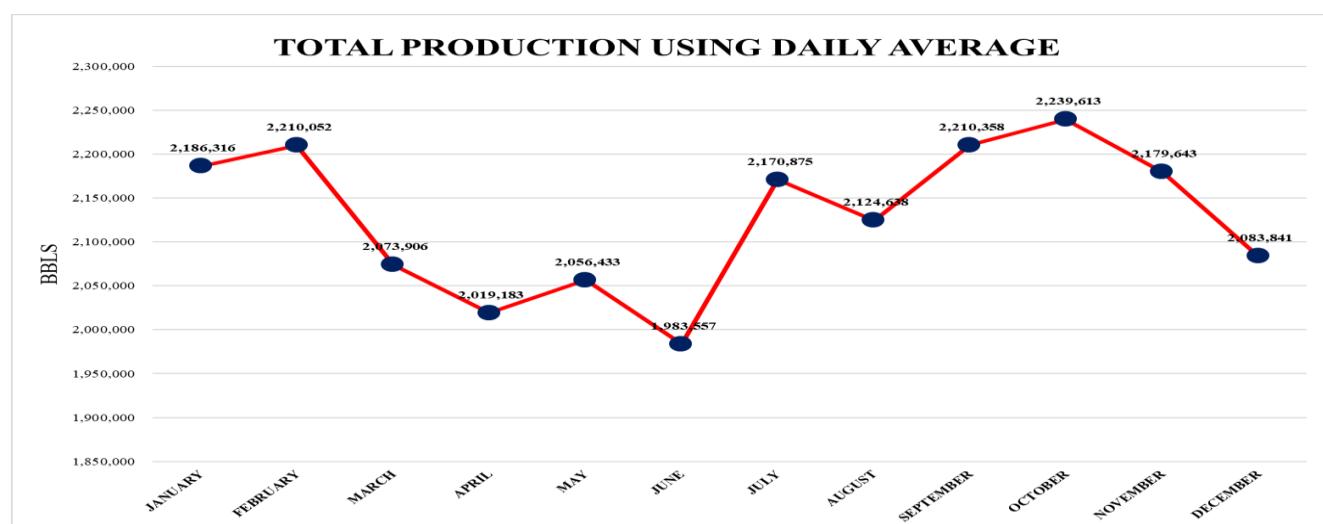
This drop affected the government revenue from crude oil being the mainstay of the Nigerian economy. Coupled with this, there was a decline in crude oil prices within the year. Consequently, the Government would have needed a higher volume of crude oil production to make up for the shortfall in crude oil prices.

Table 9.2 Total Monthly Crude Oil Production by Production Arrangement

TOTAL MONTHLY PRODUCTION FOR 2015								
MONTH	PRODUCTION	PER DAY	JV	AF (CA/MCA)	PSC	SC	SOLE RISK	MARGINAL FIELDS
	(BBLS)	(BBLS)	(BBLS)	(BBLS)	(BBLS)	(BBLS)	(BBLS)	(BBLS)
JANUARY	67,775,809	2,186,316	22,424,745	11,055,401	28,078,750	209,101	3,931,872	2,075,940
FEBRUARY	61,881,454	2,210,052	20,313,183	9,800,902	24,909,364	186,564	4,841,871	1,829,570
MARCH	64,291,079	2,073,906	20,223,924	9,614,364	26,631,592	214,908	5,416,391	2,189,900
APRIL	60,575,483	2,019,183	19,986,554	10,802,884	25,791,910	210,286	2,010,705	1,773,144
MAY	63,749,413	2,056,433	20,254,275	10,871,687	26,974,095	215,667	3,392,679	2,041,010
JUNE	59,506,697	1,983,557	18,729,104	9,705,275	25,535,640	207,368	3,569,668	1,759,642
JULY	67,297,121	2,170,875	20,671,146	11,129,247	27,731,590	211,626	5,635,867	1,917,645
AUGUST	65,863,768	2,124,638	20,914,831	11,190,320	26,251,587	214,160	5,124,432	2,168,438
SEPTEMBER	66,310,752	2,210,358	22,240,314	10,371,904	26,137,776	206,601	5,265,511	2,088,646
OCTOBER	69,428,013	2,239,613	24,390,618	10,217,988	27,631,868	211,103	5,006,328	1,970,108
NOVEMBER	65,389,291	2,179,643	21,170,417	10,189,144	26,865,101	190,982	5,029,100	1,944,547
DECEMBER	64,599,065	2,083,841	19,127,003	10,128,800	28,056,462	208,517	5,418,013	1,660,270
TOTAL	776,667,945	2,127,857	250,446,114	125,077,916	320,595,735	2,486,883	54,642,437	23,418,860

SOURCE: COSM - COMD

Figure 9.2: Total Daily Average Production for 2015



The total crude oil production was 776,667,945 bbls with an estimated value of \$40.6 billion dollars. The production data was supplied by COMD and it includes production from the Joint Venture, Production Sharing Contracts, Service Contracts, Sole Risk and Marginal Fields. The crude oil monthly Average Selling Price (\$) per barrel was computed using the monthly total sales supplied by COMD. The total estimated crude oil production value was arrived at, by multiplying the monthly volumes with the average monthly price. (Table showing this is included in Appendix 19).

9.3 Crude Oil Production Arrangement

The table above shows that the daily average production is consistent but the annual production is lower than what was recorded in 2014. The decline in production compared to 2014 was mainly as a result of sabotage, theft and facility downtime among other factors.

Table 9.4: Crude Oil Production by Arrangements

Total Crude Oil Production	2014	2015
	mbbils	Mbbls
Joint Ventures Operators (JVs)	396,855	375,524
Production Sharing Contractors (PSCs)	320,200	320,596
Service Contractors (SCs)	3,005	2,487
Sole Risk (SR)	58,800	54,642
Marginal Fields	19,682	23,419
Total	798,542	776,668

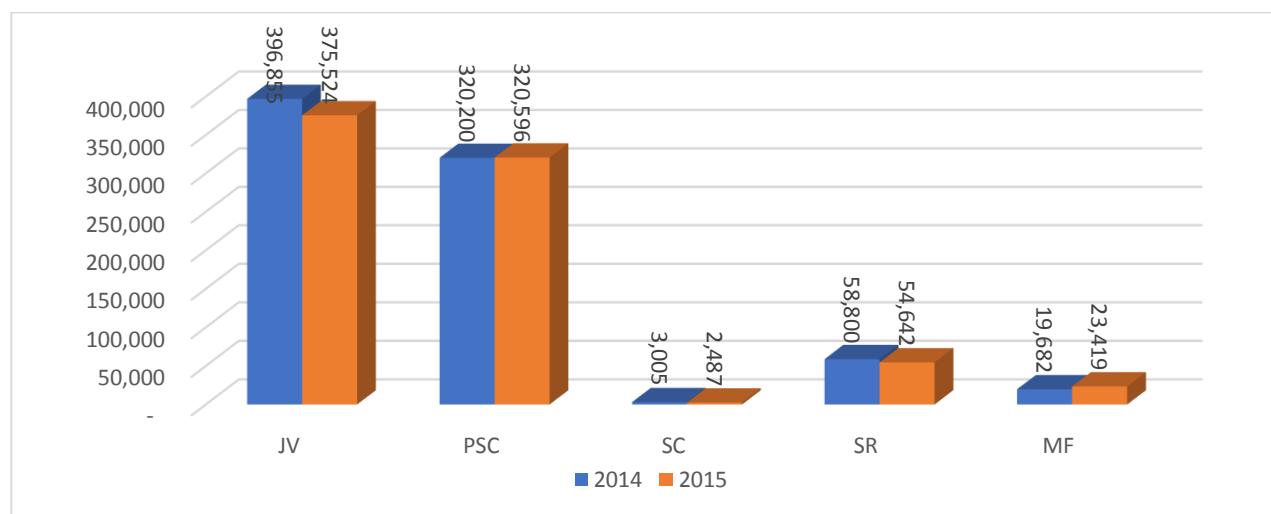


Figure 9.3: Total Crude Oil Production by Arrangement

The above reveals the following:

- The 2015 Crude oil production by the **Joint Venture (JV)** Companies suffered a slight decrease from the 2014 level by **21,331 mbbls (5.38%)**.
- The **Production Sharing Contracts (PSC)** marginally increased their production in 2015 by **396 mbbls (0.12%)**.
- The **Service Contracts (SCs)** production decreased by **518 mbbls (17.24%)**.
- The **Sole Risk Companies** experienced a decrease in production volumes in 2015 by **4,148 mbbls (7.05%)** compared to 2014.
- The Marginal Fields increased their production by **3,737 mbbls (18.99%)**

9.4 Monthly Crude Oil Liftings by Production Arrangement

The monthly crude oil lifting by production arrangement is presented below

Table 9.5: Monthly Crude Oil Liftings by Production Arrangement

MONTH	TOTAL	JOINT VENTURES (JV)		AF(CARRY/MCA/TPF)		PSC		SERVICE CONTRACT (SC)		INDEPENDENT	MARGINAL FIELDS
		NNPC	COMPANIES	NNPC	COMPANIES	NNPC	COMPANIES	NNPC	COMPANIES		
JANUARY	68,662,222	15,557,338	8,954,862.	6,070,826	4,397,217	8,743,983	19,431,742	40,000	-	4,041,838	1,424,416
FEBRUARY	64,901,732	13,287,397	9,491,161	6,371,313	4,314,784	8,041,113	17,833,843	210,000	27,753	3,302,478	2,021,890
MARCH	62,676,976	14,324,769	7,203,101	5,290,552	3,527,035	7,509,574	18,626,493	-	305,000	3,287,784	2,602,668
APRIL	63,988,262	12,002,753	12,369,500	4,914,806	3,776,537	6,659,850	20,219,085	-	-	2,351,109	1,694,622
MAY	61,720,263	12,738,783	7,134,021	5,893,114	4,236,389	6,904,881	20,242,919	60,000	114,431	2,237,806	2,157,919
JUNE	59,569,676	11,480,361	7,401,461	5,274,119	3,516,080	5,810,970	18,410,297	-	529,602	4,969,379	2,177,407
JULY	64,864,137	13,733,444	8,919,037	5,022,118	3,628,078	8,805,170	18,206,480	-	-	5,068,548	1,421,262
AUGUST	66,137,563	10,690,183	9,733,444	6,761,550	4,825,632	8,123,922	19,097,809	-	105,967	4,613,382	2,185,674
SEPTEMBER	66,157,835	12,083,709	9,754,161	6,670,157	4,244,462	7,272,722	17,396,485	-	450,000	6,366,672	1,919,467
OCTOBER	70,313,959	12,587,830	9,915,164	6,229,768	3,753,108	9,556,691	19,282,219	-	220,000	5,011,973	3,757,206
NOVEMBER	65,484,498	10,807,444	11,418,513	5,424,689	4,016,459	5,818,172	21,426,807	-	190,000	5,311,843	1,070,571
DECEMBER	65,952,619	11,824,027	5,835,239	6,387,141	3,591,427	6,458,613	21,281,017	-	241,000	8,234,380	2,099,775
TOTAL	780,429,742	151,118,038	108,129,664	70,310,153	47,827,208	89,705,661	231,455,196	310,000	2,183,753	54,797,192	24,532,877

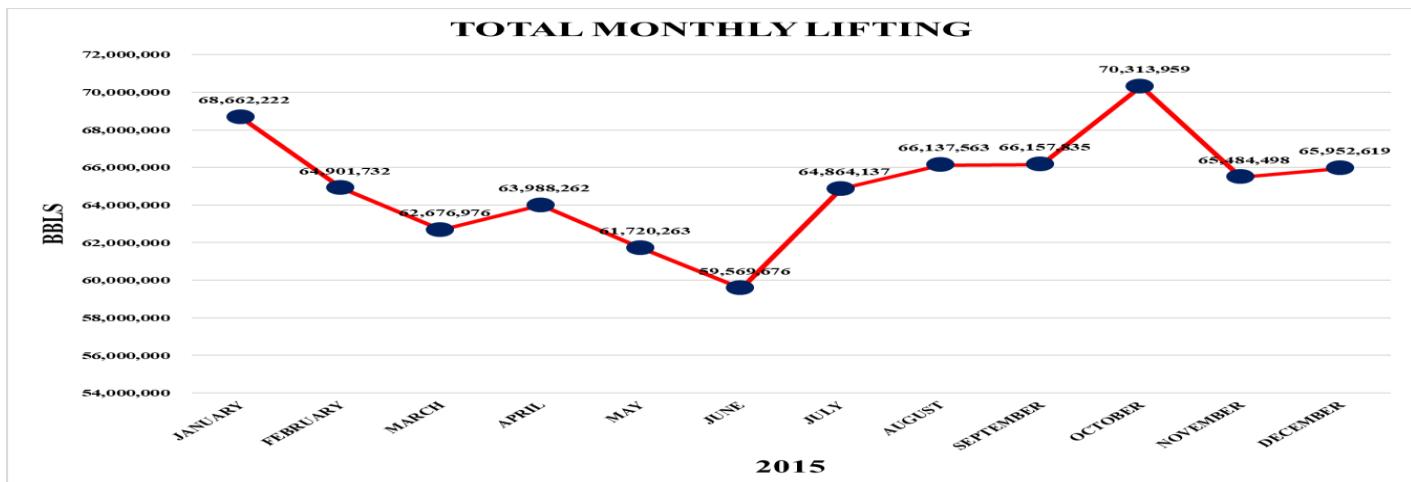


Figure 9.4: Total Lifting for 2015

There was fluctuation in lifting within the year by production arrangement as presented in table 9.6

9.5 Total Crude Oil Lifting by NNPC and Other Companies

Table 9.6: Total Lifting of Crude Oil by NNPC and Other Companies

TOTAL LIFTING OF CRUDE OIL BY NNPC AND OTHER COMPANIES				
Total Liftings	2014 (mbbls)	% of Lifting	2015 (mbbls)	% of Lifting
NNPC	349,622	43.89%	313,336	40.15%
Other Companies	446,933	56.10%	467,093	59.85%
TOTAL	796,555	100%	780,429	100%

Source: NEITI 2014 Oil & Gas Audit Report - 2015 COMD Production Profile

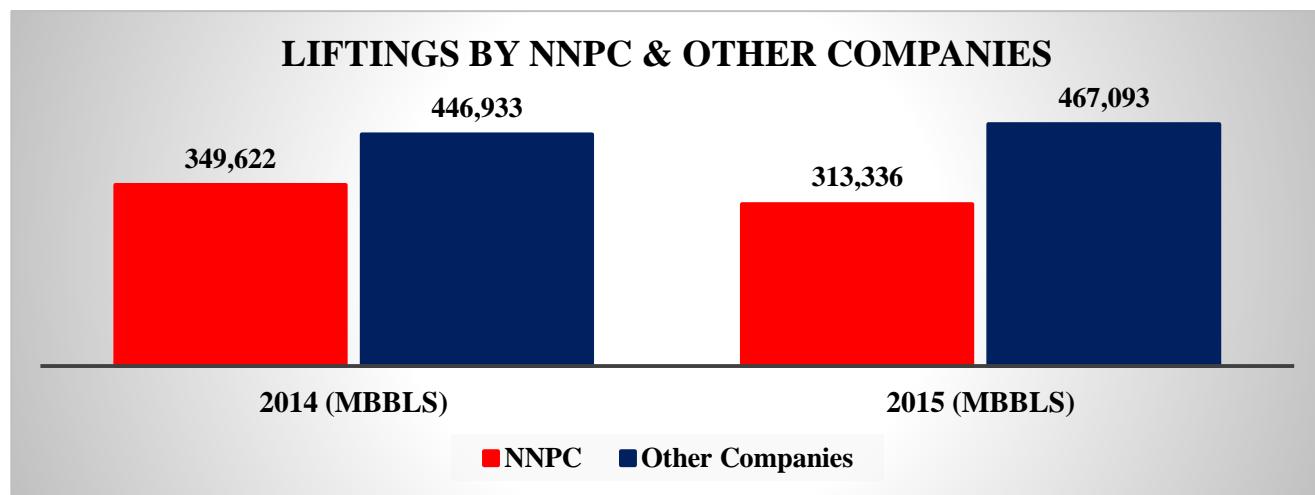


Figure 9.5: Liftings by NNPC & Other Companies

The table above reveals that;

1. Total crude oil lifting by NNPC in 2015 (**313,336 mbbls**) was less than the volume lifted in **2014 (349,622 mbbls) – (10.38%)**. This volume lifted by NNPC was **40.15%** of total volume of crude oil lifted in 2015.
2. Conversely, there was an increase in the lifting volumes of all other companies from **446,933 mbbls** in 2014 to **467,093 mbbls** in 2015 – an increase of **20,160 mbbls or (5.51%)**. The Companies therefore lifted **49.85%** of the total volume lifted in the country in 2015.
3. From the foregoing, the total lifting was **780.429 million barrels in 2015**. Out of which **313.336 million barrels** being 40% was lifted by NNPC as enumerated below based on **NNPC COMD Production & lifting distribution Profile**.

9.6 Total Crude Oil Lifting by Production Arrangement

Table 9.8: Total Crude Oil Lifting by Production Arrangements

	2014	2015
	mbbls	Mbbls
NNPC Lifting	349,622	313,336
Other JV Operators	158,060	155,957
Production Sharing Contract (PSC)	211,939	231,455
Service Contracts	830	2,184
Sole risk (Independent Operators)	59,564	54,757
Marginal field	16,540	22,741
Grand Total	796,555	780,430

Source: NEITI 2014 Oil & Gas Audit Report - 2015 COMD PRODUCTION PROFILE

The table above shows that ;

1. NNPC lifted less crude oil in 2015 compared to 2014 by **36,286 mbbls. (10.38%)**.
2. The **JV companies** exported less crude oil in 2015 by **2,103 mbbls (1.37%)**.
3. The Production Sharing Contracts lifted more volumes of crude oil in 2015 than in 2014 by **19,516 mbbls (9.21%)**.

4. The Service Contracts lifted more volumes in 2015 compared to 2014 by **1,354 mbbls (163.13%)**. NNPC lifting from the production of Service Contractors in 2015 was only **370 mbbls from their production of 2,184 mbbls**.
5. Sole Risk (Independent) producers lifted less in 2015 by **4,807 mbbls. (1.37%)**.
6. Marginal Fields' lifting for 2015 increased in comparison to 2014 by **6,201 mbbls (1.37%)**.

9.7 Joint Venture (JV) Entitlement to Production

The Joint Venture relationship between the Government and the Oil and Gas Companies is arrangements whereby the Government and the oil, gas companies hold some equity shares in the production of oil, and gas in Nigeria. These parties fund the costs of operation according to their equity shares in the business. The Federal Government appoints the Oil and Gas Companies to manage the day-to-day running of the business. All profits from business are shared according to their equity holdings.

Summarily, the agreement provides that the Government and Oil Producers share the costs of operations and in the quantity of crude produced according to their participating equities. The JV partners are free to lift and separately dispose their share of production subject to the payment of petroleum profits tax (PPT) at 65.75% in the first 5 years and at 85% thereafter and royalty at applicable rates depending on water depth.

The operator prepares proposals for programs of work and budget of expenditure on an annual basis, which shall be shared based on participatory interest. Each party can opt for and carry on sole risk operations. Also, the oil company (i.e the assignee) is granted concession right and operates the property for oil and gas. The operator shares the development and operating costs as soon as production commences and also the revenue from the crude. The operator collects cash calls from the other party(s) to the venture and also contributes its own portion of the call towards development and production activities. The JV arrangement may be between two or more parties with one party nominated as the operator. The Joint Operating Agreement (JOA) governs the conduct of operations of all partners.

Table 9.9: 2015 Joint Venture Entitlements to Production

COMPANY	PRODUCTION ³¹	NNPC EQUITY %	NNPC SHARE	COMPANY EQUITY %	COMPANY SHARE
SPDC	81,622,397	55	44,892,318	45	36,730,079
AITEO	7,935,533	55	4,364,543	45	3,570,990
EROTON	6,761,551	55	3,718,853	45	3,042,698
NEWCROSS EP	6,323,221	55	3,477,772	45	2,845,449

³¹ Production includes AF/MCA and Ekanga Zafiro

CNL	67,242,064	60	40,345,238	40	26,896,826
NAOC	31,316,999	60	18,790,199	40	12,526,800
MPNU	142,618,126	60	85,570,876	40	57,047,250
TEPNG	34,045,983	60	20,427,590	40	13,618,393
POOC	1,358,510	60	815,106	40	543,404
TOTAL	379,224,384		222,402,495		156,821,889

Source: 2015 COMD Record

1. On the average, NNPC share of the total Joint Venture (JV) production is **58.65%**
2. The JV companies' average share of total production is **41.35%**

9.8 Comparison of NNPC Equity Volumes and Actual Volumes Lifted from the JV Partners

A review of table 9.10 above revealed that there were instances where NNPC lifted more or less volumes than the allocated equity. These was often due to internal arrangements between NNPC and the Terminal operators whereby NNPC or the Operating Company could under lift or over lift their entitlements at certain times in a bid to manage the Terminal stock. In the long run, total JV lifting equalled NNPC lifting plus the other JV companies lifting.

Table 9.10: Comparison of Lifting Entitlement to Actual Volume Lifted

COMPARISON OF LIFTING ENTITLEMENT TO ACTUAL VOLUME LIFTED									
Company	Total JV Lifting†	NNPC Equity	NNPC Volume	Equity NNPC Lifting††	Actual	Company Equity	Company Volume	Equity Company	Company Actual Lifting
	BBLS	%	BBLS	BBLS	%	BBLS	BBLS	BBLS	BBLS
SPDC	84,015,475	55	46,208,511	44,412,852	45	37,806,964	39,602,623		
AITEO	6,940,122	55	3,817,067	3,504,524	45	3,123,055	3,435,598		
EROTON	6,060,034	55	3,333,019	3,354,334	45	2,727,015	2,705,700		
NEWCROSS EP	6,077,428	55	3,342,585	3,399,003	45	2,734,843	2,678,425		
CNL	66,851,647	60	40,110,988	41,274,880	40	26,740,659	25,576,767		
NAOC	28,040,986	60	16,824,592	16,399,389	40	11,216,394	11,641,597		
MPNU	142,808,591	60	85,685,155	85,783,170	40	57,123,436	57,025,421		
TEPNG	34,549,669	60	20,729,801	22,075,372	40	13,819,868	12,474,297		
POOC	2,041,111	60	1,224,667	1,224,667	40	816,444	816,444		
TOTAL	377,385,063		221,276,385	221,428,191				156,108,678	155,956,872

† TOTAL JV LIFTING INCLUDE LIFTINGS FROM AF/MCA AND EKANGA ZAFIRO

†† NNPC LIFTING = FEDERATION EXPORT + REFINERY DELIVERIES + DOMESTIC EXPORT

SOURCE: COSM - COMD

9.9 Crude Oil Lifting Between NNPC and the PSCs through the Companies' Terminals/FPSOs

The increase in funding pressure from the JVs, prompted the Federal Government of Nigeria (FGN) to adopt the PSC model in 1993 as the preferred petroleum arrangement with IOCs for onshore and offshore operations. This arrangement was modelled from Indonesia.

Under the PSC arrangement, the OPL and the OML is held by the NNPC, which engages the IOC or indigenous private investor as a contractor to conduct petroleum operations on behalf of it and the

NNPC. The contractor is responsible for financing all costs of the various stages of petroleum operations – i.e. exploration, development and production within a concession area under an OPL for a period not longer than 10 years. When the exploration is successful, the IOC will be entitled to recover its costs, together with reasonable profit when commercial production begins and also pay royalty, PPT and other bonuses to FGN. If the operation is not successful, the contractor will bear all losses.

The government participates through NNPC, which holds the relevant concession/license and then engages third parties under the PSC to conduct petroleum operations. NNPC is entitled to a share of the Profit Petroleum under the PSC. Below is the summary of crude lifting between NNPC and the PSC's through PSC's Terminal/ FPSO:

Table 9.11: Crude Lifting Between NNPC and the PSCs through the PSCs Terminal/FPSO

COMPANY	PRODUCTION	NNPC LIFTING BBLS	NNPC LIFTING %	COMPANY LIFTING BBLS	COMPANY LIFTING %	TOTAL LIFTING	
ABO	8,062,126	700,000	0.78	7,484,624	3.25	8,184,624	69,067,230
AGBAMI	85,339,585	16,560,929	18.46	69,067,230	29.98	85,628,159	46,387,433
AKPO	55,503,303	8,975,742	10.01	46,387,433	20.14	55,363,175	9,948,619
ANTAN	14,392,228	3,770,039	4.20	9,948,619	4.32	13,718,658	36,463,043
BONGA	70,030,598	33,252,038	37.07	36,463,043	15.83	69,715,081	13,777,402
ERHA	33,469,917	19,653,758	21.91	13,777,402	5.98	33,431,160	2,970,117
OKWORI	6,521,360	3,889,045	4.34	2,970,117	1.29	6,859,162	6,512,065
TULJA	6,815,676	910,061	1.01	6,512,065	2.83	7,422,126	37,735,077
USAN	39,387,436	1,994,049	2.22	37,735,077	16.38	39,729,126	230,345,610
TOTAL	319,522,229	89,705,661	100.00	230,345,610	100.00	320,051,271	7,484,624.00

Sourced :2015 COMD Record

The table above shows that:

1. NNPC lifting as shown in table 9.11 above is low because some PSC companies were still recovering initial costs of production in 2015.
2. In Erha terminal for example, Mobil had recovered all the initial costs and the terms of the contract with NNPC was in full implementation as such NNPC's lifting is clearly more in Erha.
3. SNEPCO's (Bonga terminal) was getting close to recovering all costs.
4. In TUPNI (Akpo terminal) and Mobil (Usan terminal) the companies had higher lifting than NNPC because the companies were recovering the bulk of their investments while NNPC was lifting tax oil.
5. This arrangement is beneficial to the Federal Government of Nigeria since the Government does not bear the costs of exploration and production, unlike the JV arrangement.

9.10 Allocation of Federation Lifting

Table 9.12: Allocation of Federation Lifting (mmbbls)

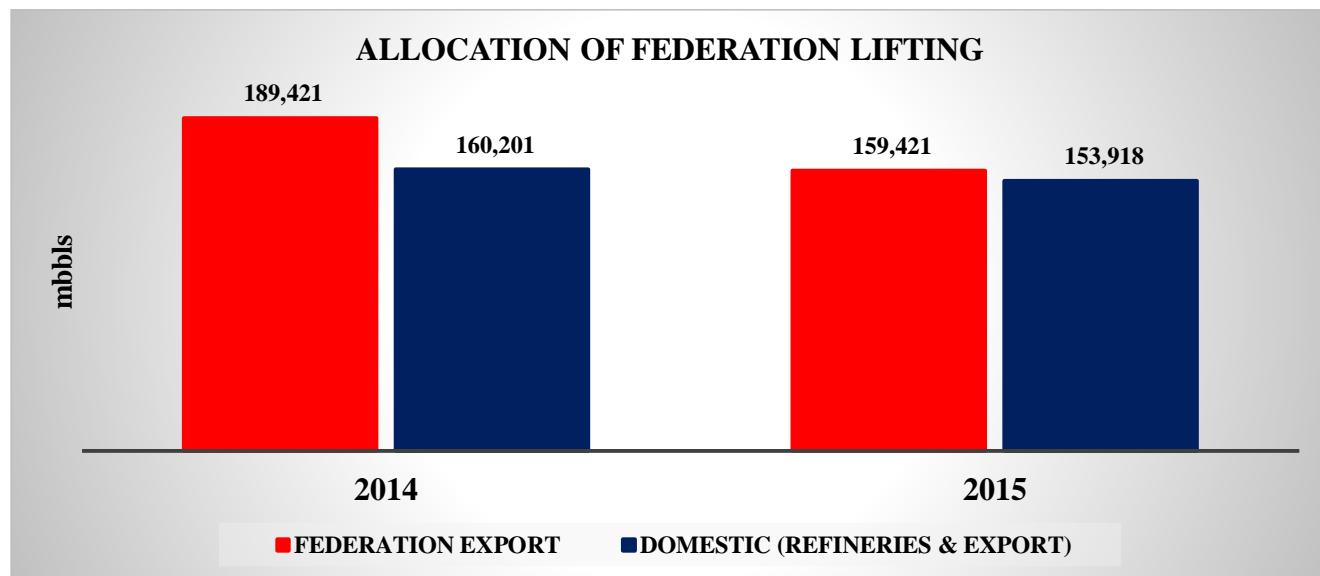
ALLOCATION OF FEDERATION LIFTING (MMBBLS)		
	2014	2015
FEDERATION EXPORT	189,421	159,418
DOMESTIC (REFINERIES & EXPORT)	160,201	153,918
TOTAL FEDERATION LIFTING	349,622	313,336

SOURCE: NEITI 2009-2014 OIL & GAS AUDIT REPORTS/ COMD 2015 CRUDE PRODUCTION PROFILE

The table above shows that;

1. Federation Export crude consists of equity oil from JV operations, profit oil, tax oil from PSCs, MCAs, Reserve Development Projects and Concession rentals.
2. From the federation equity, a daily allocation of **445,000 barrels/day** is made to PPMC for domestic use.

Compared to 2014, Federation export dropped in 2015 by 30,003 mbbls (15.84%). This was due to the fall in total production within 2015.

**Figure 9.6: Allocation of Federation Lifting**

9.11. Crude Oil Production

Production of crude oil is defined as the extraction of certain volume of crude oil and gas from an oil reservoir.

In Nigeria, the volume of crude oil extracted from the reservoirs is measured first at the flow stations and second at the Terminals.

9.12 Determination of Production

In determining the volume of crude oil produced by all the operating companies during this Audit, the Auditors adopted the following methods:

1. The operators were requested to give additional information on their internal source production report for the year 2015. This was compared with the volumes provided in the NEITI Templates.
2. Operators were requested to provide minutes of their monthly curtailment meetings with NNPC, DPR and NAPIMS where their production plans were discussed and compared with actuals.
3. The companies' production volumes were compared with DPR volumes during validation and reconciliation periods.
4. The operators were also requested to provide their deferment volumes due to scheduled and unscheduled maintenance activities in their facilities. This request was made in order to appreciate the volumes that were not produced due to these maintenance activities.

9.13 Comparison of Crude Oil Production by Company

Table 9.13: Comparison of Fiscalised Crude Production by Company (bbls)

COMPARISON OF FISCALISED CRUDE PRODUCTION BY COMPANY (BBLs)			
ENTITY	COMPANY	NNPC	DPR
ADDAX	22,017,432	21,987,094	22,017,432
AENR	2,564,252	2,486,883	2,556,307
AITEO	7,935,533	7,935,533	7,935,533
ALLIED/CAMAC	1,777,052	1,777,030	1,777,052
AMNI	4,581,079	4,590,679	4,590,679
ATLAS		137,637	276,912
BRITANIA-U	522,478	522,478	522,478
CHEVRON	72,402,497	67,242,064	69,084,767
CONOIL	372,189	372,189	372,189
CONTINENTAL	2,798,920	2,798,920	2,798,920
DUBRI	110,917	82,070	82,070
ENERGIA	1,644,105	1,409,218	1,409,219
EROTON	7,665,864	6,761,550	7,688,998
ESSO	33,469,916	33,469,916	33,469,916
FRONTIER	5,872	191,467	
MIDWESTERN	6,207,818	5,343,677	5,343,677
MOBIL	142,500,641	142,618,126	142,500,641
MONIPULO	975,982	975,980	975,980
NAE	8,062,126	8,062,126	8,062,126
NAOC	30,724,335	31,316,999	31,316,998
NDPR	1,116,275	1,146,196	1,146,196
NETWORK	689,744	702,639	702,639
NEWCROSS		6,323,221	7,216,464
NPDC (65/111)	1,508,078	1,837,090	1,837,090
NPDC (119)	8,398,786	8,459,169	8,459,169
NPDC-ELCREST	730,421	730,421	730,421
NPDC-FHN	667,987	1,061,144	1,061,144
NPDC-ND WESTERN	3,213,534	3,213,534	3,213,534
NPDC-NECONDE	6,543,795	6,543,795	6,543,795
NPDC-SEPLAT	18,246,266	17,867,886	17,867,886
NPDC-SHORELINE	4,158,713	4,158,713	4,158,713
ORIENTAL	10,254,615	10,254,615	10,254,615
PANOCEAN	1,358,510	1,358,510	1,358,510
PILLAR	974,250	914,970	914,970
PLATFORM	607,655	607,653	607,653
PRIME		486,999	
SEEPCO	6,815,676	6,815,676	6,815,676
SHEBA/EXPRESS	66,444	36,180	
SNEPCO	70,030,598	70,030,598	70,030,598
SPDC	78,867,210	81,622,397	79,051,809
STARDEEP	85,339,587	85,339,585	85,339,585
TEPNG*	30,279,712	34,045,983	34,045,983
TUPNI	55,549,574	55,503,303	55,503,303
UNIVERSAL	607,086	607,086	607,086
USAN	39,387,436	39,387,436	39,387,436
WALTERSMITH	1,231,861	1,231,861	1,231,861
TOTAL	772,982,821	780,368,296	780,868,030

OURCE COMPANY OIL HYDROCARBON FLOWS TEMPLATE, COMD and DPR RECONCILED PRODUCTION SIGN-OFF KEY

COMPANY DID NOT PROVIDE HYDROCARBON FLOWS TEMPLATE
THERE WAS NO DPR PRODUCTION SIGN-OFF

* TEPNG production includes Ekanga Zafiro Volumes

The table above shows the comparison of crude oil volumes produced by the companies, the reconciled volumes with DPR and the records with COMD.

Detailed company level reporting can be found in appendix 19.

From the information in the table, it is observed that:

- The volumes of crude oil produced by ATLAS, NEWCROSS and PRIME E & P are not available because the companies did not submit their Hydrocarbon Flows Templates to enable the Auditors analyze and reconcile their production volumes.
- Prime E&P and SHEBA/EXPRESS did not provide volumes that had been reconciled and signed off by DPR.

9.14 Disaggregated Production and Lifting

A review of NNPC, DPR and Company records shows a variance in the production record by stream. While NNPC records indicate that, the total production in 2015 was 780,368,299 bbls, DPR record indicate 780,830,568 bbls and company's record 771,197,855 bbbls.

Table 9.14: Comparison of Fiscalised Crude Production by Stream (bbls)

COMPARISON OF FISCALISED CRUDE PRODUCTION BY STREAM (BBLs)						
STREAM	NNPC	DPR	COMPANY	Location	State	
ABO	8,062,126	8,062,126	8,062,126	off shore	Delta State	
AGBAMI	85,339,585	85,339,585	85,339,585	off shore	Bayelsa State	
AKPO	55,503,303	55,503,303	55,549,575		Rivers State	
AMENAM	25,029,537	25,029,537	25,036,802		Rivers State	
ANTAN	15,368,208	15,368,208	15,368,208		Rivers State	
ASARAMATORU	486,999				Rivers State	
BONGA	70,030,598	70,030,598	70,030,598	off shore		
BONNY	69,030,266	68,599,843	68,599,841		Rivers State	
BRASS	41,733,707	39,120,881	39,072,221		Bayelsa State	
EA	14,013,060	14,013,061	14,013,060		Delta State	
EBOK	10,254,615	10,254,615	10,254,615		Abia State	
ERHA	33,469,917	33,469,916	33,469,917	off shore		
ESCRAVOS	62,999,069	67,164,146	62,022,331		Delta State	
FORCADOS	68,782,930	68,782,926	68,671,337		Bayelsa State	
IMA	295,976	295,976	295,976			
OKORO	4,294,703	4,294,703	4,280,321	off shore		
OKONO	8,459,169	8,459,169	8,459,043			
OKWORI	6,521,360	6,521,371	6,521,371			
OYO	1,777,030	1,777,052	1,777,052			
PENNINGTON	4,719,541	4,719,541				
QIT	126,774,069	126,774,069	126,655,871		Akwa Ibom	

TULIA	6,815,676	6,815,676	7,037,536			
UKPOKITI	173,817	-	-			
USAN	39,387,436	39,387,436	39,387,436		Rivers state	
YOHO	17,345,249	17,346,477	17,346,441		Bayelsa State	
TOTAL	776,667,946	777,130,215	767,251,263			
ZAFIRO	3,700,353	3,700,353	3,946,592	offshore	Equatorial Guinea.	
SOURCE: COMPANY TERMINAL BALANCE TEMPLATE, COMD and DPR RECONCILED EXPORT SIGN-OFF						
KEY						

SOURCE: COMPANY TERMINAL BALANCE TEMPLATE, COMD and DPR RECONCILED EXPORT SIGN-OFF

KEY

 COMPANY DID NOT PROVIDE TERMINAL BALANCE TEMPLATE

 THERE WAS NO DPR PRODUCTION SIGN-OFF

¹ Escravos; company volume of 62,022,331 bbls is the volume produced by Chevron (Oil and Spiked Condensate) and does not include volumes produced by Dubri, Continental Oil and Brittania-U whereas DPR volume of 67,164,146 bbls represents Chevron production with Unspiked Oil.

9.15 Disparity between NNPC and DPR Records

Table 9.15: Disparity between NNPC AND DPR Records

STREAM	NNPC	DPR	VARIANCE
ABO	8,062,126	8,062,126	-
AGBAMI	85,339,585	85,339,585	-
AKPO	55,503,303	55,503,303	-
AMENAM	25,029,537	25,029,537	-
ANTAN	15,368,208	15,368,208	-
ASARAMATORU	486,999	-	
BONGA	70,030,598	70,030,598	-
BONNY	69,030,266	68,599,843	430,423
BRASS	41,733,707	39,120,881	2,612,826
EA	14,013,060	14,013,061	(1)
EBOK	10,254,615	10,254,615	-
ERHA	33,469,917	33,469,916	1
ESCRAVOS	62,999,069	67,164,146	(4,165,077)
FORCADOS	68,782,930	68,782,926	4
IMA	295,976	295,976	-
OKORO	4,294,703	4,294,703	-
OKONO	8,459,169	8,459,169	-
OKWORI	6,521,360	6,521,371	(11)
OYO	1,777,030	1,777,052	(22)
PENNINGTON	4,719,541	4,719,541	-
QIT	126,774,069	126,774,069	-
TULJA	6,815,676	6,815,676	-
UKPOKITI	173,817	-	
USAN	39,387,436	39,387,436	-
Yoho	17,345,249	17,346,477	(1,228)
TOTAL	776,667,946	777,130,215	(1,123,085)
ZAFIRO	3,700,353	3,700,353	-

SOURCE: COMD and DPR RECONCILED PRODUCTION SIGN-OFF

Table 9.15 above shows the differences between NNPC/COMD FIGURES and DPR'S reconciled sign-off volumes.

FINDINGS

- PRIME E&P (ASARAMATORU) and EXPRESS/SHEBHA (Ukpokiti) did not submit DPR sign-off Templates.
- There was an average difference of **1,123,055 bbls** between NNPC/COMD and DPR sign-off volumes. DPR sign-off volumes were higher than NNPC/COMD volumes.

- PRIME E&P (ASARAMATORU) and EXPRESS/SHEBHA (Ukpokiti) did not submit DPR sign-off Templates.
- SPDC (BONNY) had a difference of **430,423 bbls**. NNPC/COMD had higher volumes than DPR sign-off.
- Nigeria Agip Oil Company (Brass) had a difference of **2,612,826 bbls**. NNPC/COMD had higher volumes than DPR sign-off.
- NNPC is not part of the sign off with the entities.

Recommendations:

- NNPC has as a major stakeholder in the JVs, it is recommended that NNPC should participate in the sign-offs of production and lifting of the JV companies.

Disparity between DPR and Companies Production Records

Table below shows the comparison between DPR sign-off volumes and those of the various companies.

TABLE 9.16: Disparity between DPR and Companies Production Records

STREAM	DPR	COMPANY	VARIANCE
ABO	8,062,126	8,062,126	-
AGBAMI	85,339,585	85,339,585	-
AKPO	55,503,303	55,549,575	(46,272)
AMENAM	25,029,537	25,036,802	(7,265)
ANTAN	15,368,208	15,368,208	-
ASARAMATORU	-	-	
BONGA	70,030,598	70,030,598	-
BONNY	68,599,843	68,599,841	2
BRASS	39,120,881	39,072,221	48,660
EA	14,013,061	14,013,060	1
EBOK	10,254,615	10,254,615	
ERHA	33,469,916	33,469,917	(1)
ESCRAVOS	67,164,146	62,022,331	5,141,815
FORCADOS	68,782,926	68,671,337	111,589
IMA	295,976	295,976	-
OKORO	4,294,703	4,280,321	14,382
OKONO	8,459,169	8,459,043	126
OKWORI	6,521,371	6,521,371	-
OYO	1,777,052	1,777,052	-
PENNINGTON	4,719,541	-	
QIT	126,774,069	126,655,871	118,198
TULJA	6,815,676	7,037,536	(221,860)
UKPOKITI	-		
USAN	39,387,436	39,387,436	-
YOHO	17,346,477	17,346,441	36
TOTAL	777,130,215	767,251,263	5,159,411
ZAFIRO	3,700,353	3,946,592	(246,239)

SOURCE: COMPANY TERMINAL BALANCE TEMPLATE and DPR RECONCILED PRODUCTION SIGN-OFF

The table shows:

- PRIME E&P (Asaramatoru) and EXPRESS/SHEBHA (Ukpokiti) did not provide Company and DPR sign-off Templates.
- Average total differences between NNPC/COMD and DPR amounted to 5,159,411 bbls
- SEEPCO (Tulja) and DPR had a difference of 118,198 bbls with SEEPCO having higher volumes than DPR.

9.16 Comparison of Crude Oil Lifting by Stream

Table 9.17: Comparison of Crude Lifting by Stream (bbls)

COMPARISON OF CRUDE LIFTING BY STREAM (BBLS)			
STREAM	TERMINAL OPERATOR	NNPC	DPR
ABO		8,184,624	8,184,624
AGBAMI		85,628,159	85,628,159
AKPO		55,354,492	55,363,175
AMENAM		25,321,991	25,321,991
ANTAN		14,396,706	14,396,706
ASARAMATORU		422,934	422,934
BONGA		69,702,743	69,715,081
BONNY		69,449,533	69,449,533
BRASS		38,946,913	38,946,913
EA		13,629,727	13,629,727
EBOK		10,274,484	10,274,484
ERHA		33,433,659	33,431,160
ESCRAVOS		62,996,828	62,996,828
FORCADOS		69,510,040	69,510,040
IMA		448,182	448,182
OKORO		4,840,795	4,840,795
OKONO		9,296,812	9,296,812
OKWORI		6,859,162	6,859,162
OYO		1,646,071	1,646,071
PENNINGTON		4,939,155	4,939,155
QIT		126,568,472	126,568,472
TULJA		7,422,126	7,422,126
UKPOKITI			
USAN		39,729,126	39,729,126
YOHO		17,461,456	17,461,456
ZAFIRO		3,710,955	3,710,955
TOTAL	774,813,056	780,429,782	780,193,667

SOURCE: COMPANY TERMINAL BALANCE TEMPLATE, COMD and DPR RECONCILED EXPORT SIGN-OFF
KEY

COMPANY DID NOT PROVIDE TERMINAL BALANCE TEMPLATE
THERE WAS NO EXPORT FROM THIS TERMINAL IN 2015

The table above shows that;

- ASARAMATORU (PRIME E&P) and EBOK (ORIENTAL) and PENNINGTON (CHEVRON) did not provide Terminal balance Templates.

- UKPOKITI (EXPRESS/SHEBHA) did not export from the Terminal in 2015.
- Total Crude oil lifting in the Terminals by the Operators, NNPC/COMD and DPR were different because some of the Terminals did not submit their Templates.
- There were no differences in values for NNPC/COM, DPR and Companies in the Terminals except for EBOK – between NNPC/COMD and DPR (**883,568 bbls**).

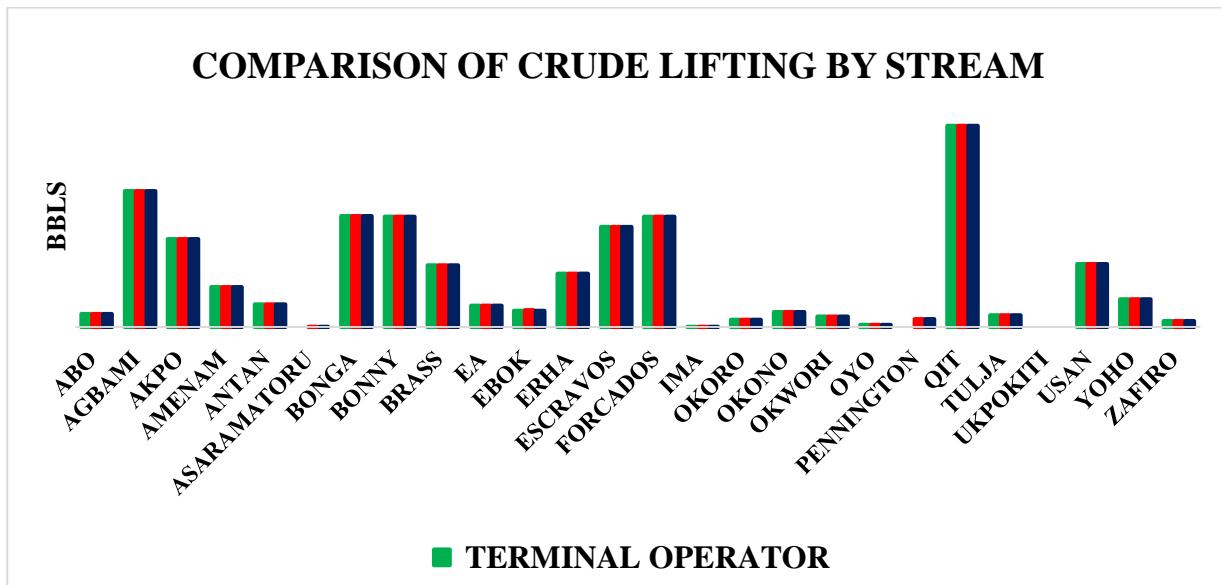


FIGURE 9.7: COMPARISON OF CRUDE LIFTING BY STREAM

The table above shows that;

- According to NNPC/COMD records, the total lifting in the country was 780,429,742 bbls This includes lifting from the unitized Ekanga field of 3,700,353 bbls.
- Mobil Producing Nigeria Unlimited, Frontier E&P, Universal Energy and Network E&P (Qua Iboe Light (QIL) blend) lifted the highest volume in the country (126,568,472 bbls) by 16.22%.

Other major lifters include:

- Agbami Blend by Stardeep (85,623,159 bbls) contributed 10.97%
- Bonga Blend by SNEPCO (69,702,743 bbls). Contributed 8.93%.
- Bonny Light by SPDC (69,449,533 bbls) contributed 8.90%
- Forcados Blend by SPDC (69,510,040 bbls) contributed 8.91%
- Escravos Blend by Chevron (62,996,828 bbls) contributed 8.07%
- Akpo Blend by TUPNI (55,354,492 bbls) contributed 7.09%.
- Brass blend by NAOC (38,946,913 bbls) contributed 5.00%

9.17 Terminal Balance

Terminal balance is the reconciliation of gross volumes of crude oil (oil, water and sediments) produced and transferred to the terminals. This is how the operators calculate their net barrels in the terminals. These differences were reconciled after reviewing the original log used by the operators.

The following information is provided by the companies i.e:

- Closing stock in the terminal from the previous month, which becomes the opening stock for current month.
- Total volume of exportable crude received in the terminal after removing water.
- De-water/Shrinkage in the terminal.
- Terminal adjustment
- Total volume of crude lifted from the terminal within the month
- Closing stock (Crude left in the terminal after lifting)

The table 9.18 below provides the terminal balance as per 2015; detailed analysis is in appendix 20

TERMINAL OPENING AND CLOSING STOCK			
BBLS	TERMINAL	2015	
		OPENING STOCK	CLOSING STOCK
Terminal values	ABO	276,598	154,100
Terminal values	AGBAMI	1,803,729	1,515,155
Terminal values	AKPO	1,237,412	1,432,494
Terminal values	ANTAN	205,525	1,177,027
Terminal values	ASARAMATORU		
Terminal values	BONGA	1,092,307	1,420,162
Terminal values	BONNY	1,085,478	395,382
Terminal values	BRASS	1,514,082	1,688,050
Terminal values	EA	511,166	894,499
Terminal values	EBOK	652,454	632,585
Terminal values	ERHA	1,401,654	1,440,411
Terminal values	ESCRAVOS	135,690	117,333
Terminal values	FORCADOS	293,644	-463,742
Terminal values	IMA	199,634	47,428
Terminal values	OKORO	1,221,590	661,116
Terminal values	ODUDU/AMENAM	1,462,479	1,170,938
Terminal values	OKONO	936,270	98,628
Terminal values	OKWORI	722,240	384,449
Terminal values	OYO	50,852	181,833
Terminal values	PENNINGTON		
Terminal values	QIT	2,217,565	2,423,162
Terminal values	TULJA	27,945	85,116
Terminal values	UKPOKITI		
Terminal values	USAN	1,301,741	960,051
Terminal values	YOHO	988,806	872,599
Terminal values	EKANGA/ZAFIRO	801,603	791,001
Terminal values	TOTAL	20,140,464	18,079,777

SOURCE: COMPANY TERMINAL BALANCE TEMPLATE

9.18 Crude Oil Losses due to Sabotage, Theft and Deferment

9.18.1 Introduction

In the Nigerian oil industry, the Federal Government and the oil and gas operators lose crude oil through the activities of people outside the industry.

The term 'Crude oil Theft' is defined as an illegal crude oil removal from the facilities of the operators in the oil and gas industry. This illegal removal of crude can occur at the wellheads, the flow lines, the delivery lines and the trunk lines taking crude oil to the terminals.

The term 'Sabotage' is the wilful act of people causing damage to the oil and gas facilities, blocking of access to the facilities, thereby causing production losses and deferments in the industry.

Crude oil theft and sabotage are serious setbacks to the oil and gas operations in Nigeria. The implications of these acts have far-reaching effects on Governments and the operators' revenues, the international traders that buy crude oil from Nigeria and the environment due to oil pollution.

The Audit therefore tried to project the size of the effect these two activities had on Nigeria, the operators and the society.

9.18.2 Deferred Production (Scheduled and Unscheduled)

'Crude oil deferment' in the oil and gas industry is the volume of oil and gas not produced because of either planned or unplanned activities in the facility.

'Scheduled deferment' is the volume of crude oil that was not produced because of planned maintenance activities in the facility.

'Unscheduled deferment' is the loss of production due to malfunctions of operating equipment in the facility and sabotage activities.

Although scheduled deferment is planned, it however limits the total volume of produced crude oil compared to the capacity of the facility.

These deferments affect the planned crude oil production within the period.

Findings:

- SPDC voluntarily provides this information because of the frequent sabotage on its facilities.
- Some companies did not separate crude theft from sabotage, making it difficult to separately calculate and assess each cost to the country.

9.18.3 Summary of Crude Oil Losses (Theft & Sabotage)

The summary of Crude Oil Losses (Theft and Sabotage) is as presented below:

Table 9.18: 2015 Crude Oil Losses and Sabotage

2015 CRUDE OIL LOSSES AND SABOTAGE			
COMPANY	LOSSES		DEFERRED PRODUCTION
	THEFT	SABOTAGE	
MOBIL	-		
SPDC	7,843,559		69,749,906
CHEVRON	-		
NAOC	1,092,571		
TEPNG	-		
PANOCEAN	-		
AITEO	1,095,207		121,348
EROTON	875,754		3,785,000
NEWCROSS	893,243		
AENR	69,424		
SNEPCO	-		4,560,578
ADDAX	51,135		1,416,581
TUPNI	-		
STARDEEP	-		
ESSO	-		
USAN	-		
NAE	-		
SEEPCO	-		
AM NI	-		310,540
NPDC			
NPDC-SEPLAT	9,137,939		7,224,884
NPDC-FHN	233,515		-
NPDC-SHORELINE	919,722		
NPDC-ND WESTERN	1,849,558		
NPDC-ELCREST	164,896		
NPDC-NECONDE	1,475,042		
ATLAS	-		
CONTINENTAL	-		
CONOIL	-		
DUBRI	-		
MONIPULO	-		
SHEBA/EXPRESS	-		
ALLIED/CAMAC	-		
BRITANIA-U	-		
WALTERSMITH	134,888		
ORIENTAL	-		334,064
UNIVERSAL	-		
ENERGIA	245,663		
FRONTIER	-		
MIDWESTERN	923,713		
NETWORK	-		
NDPR	-		
PILLAR	69,250		
PRIME	-		
PLATFORM	46,375		
TOTAL	27,121,454		87,502,901

SOURCE: COMPANY CRUDE LOSS/DEFERRED TEMPLATE

From Table 9.18 above:

- The total volume of crude oil lost in the industry in Nigeria in 2015 was **27,121,454 bbls** because of sabotage and theft from the Operators' facilities.
- The total volume of crude oil lost because of deferment in 2015 was **87,502,901 bbls**.
- The deferred production losses of **87,502,901 bbls** in 2015 were higher than the sabotage and theft losses of **27,121,454 bbls by 222.63%**.
- The deferments were crude oil volumes not produced by the operators although if produced would have earned the Government more revenue.
- A lot of the operators did not submit templates for deferment losses.
- The deferment losses (scheduled and unscheduled) were not separated in the table.

9.18.4 Percentage of Crude Oil Lost (Theft and Sabotage) to Total Production

The total volume of crude oil loss in 2015 because of sabotage and theft from the Operators' facilities was **27,121,454 bbls** while loss due to deferment was **87,502,901 bbls** as presented below:

Table 9.19: Percentage of Crude Oil Lost (Theft and Sabotage) to Total Production

TOTAL CRUDE OIL PRODUCTION (BBLS)	776,667,945
TOTAL LOSSES (THEFT & SABOTAGE) (BBLS)	27,121,454
% LOSS	3.49

Figure 8: Production vs Losses



The table above shows that;

- Total crude oil lost as a result of Sabotage and theft (**27,121,454 bbls**) as a percentage of total production (**776,667,954 bbls**) in 2015 was **3.49%**
- Apparent deferment losses (unproduced crude) from the few companies that submitted information (**87,502,901 bbls**) as a percentage of total production (**776,667,954 bbls**) was **11.27%**.

9.18.5 Joint Venture (JV) Crude Oil Losses (Theft and Sabotage)

The JV share of the total crude oil loss due to Sabotage and theft is **11,800,334 bbls** which constitutes **43.51%** of the total loss in 2015.

Table 9.20: Joint Venture Share of Losses (bbls)

JOINT VENTURE SHARE OF LOSSES (BBLs)				
	THEFT VOLUME	EQUITY %	NNPC SHARE	COMPANY SHARE
NNPC-SPDC	7,843,559	55-45	4,313,957	3,529,602
NNPC-NAOC	1,092,571	60-40	655,543	437,028
NNPC-AITEO	1,095,207	55-45	602,364	492,843
NNPC-EROTON	875,754	55-45	481,665	394,089
NNPC-NEWCROSS	893,243	55-45	491,284	401,959
TOTAL JV LOSSES	11,800,334		6,544,812	5,255,522

The table above shows that;

- Total losses in the JV operations in 2015 was **11,800,334 bbls out of 27,121,454 bbls or 43.51%**
- NNPC share of the total losses in 2015 in the JV operations was **6,544,812 bbls or 55.46%**
- The JV companies' total losses in 2015 was **5,255,522 bbls or 44.55%**

9.18.6 NNPC Share of Crude Oil Losses (Theft and Sabotage)

Table 9.21: NNPC share of the Oil Losses (\$)

NNPC SHARE OF LOSSES (\$)			
	NNPC EQUITY (BBLs) YEARLY RATE (\$)	Avg. RATE (\$)	VALUE (\$)
NNPC-SPDC	4,313,957	52.6533	227,144,095.80
NNPC-NAOC	655,543	52.6533	34,516,481.18
NNPC-AITEO	602,364	52.6533	31,716,444.50
NNPC-EROTON	481,665	52.6533	25,361,235.95
NNPC-NEWCROSS	491,284	52.6533	25,867,705.41
TOTAL JV LOSSES	6,544,812		344,605,963

SOURCE: <https://www.cbn.gov.ng/rates/crudeoil.asp?year=2015>

From the table above;

- The total NNPC share of the crude oil loss in 2015 was 6,544,812bbl, with a value of **(\$344,605,963.00)**. Three Hundred and Forty-Four Million Six Hundred and Five Thousand Nine Hundred and Sixty-Three Dollars.

9.18.7 Crude Oil loss by Production Arrangement

The total crude oil losses by arrangement are as enumerated below:

Table 9.22: Crude Oil loss by Production Arrangement

PRODUCTION ARRANGEMENT SHARE OF LOSSES (\$)			
PRODUCTION ARRANGEMENT	THEFT VOLUME (BBLS)	Avg. YEARLY RATE (\$)	VALUE (\$)
JOINT VENTURE (JV)	11,800,334	52.6533	621,326,526
PRODUCTION SHARING CONTRACT (PSC)	51,135	52.6533	2,692,426.50
SERVICE CONTRACTOR	69,424	52.6533	3,655,402.70
SOLE RISK (SR)	13,780,672	52.6533	725,597,857.02
MARGINAL FIELD (MF)	1,419,889	52.6533	74,761,841.48
TOTAL	27,121,454		1,428,034,054

SOURCE:

<https://www.cbn.gov.ng/rates/crudeoil.asp?year=2015>

The table above shows that;

- The total crude loss in 2015 was 27,121,454 bbl, with a value of **\$1,428,034,054.00** One Billion Four Hundred and Twenty-Eight Million and Thirty-Four Thousand and Fifty-Four Dollars.
- Majority of the Sole Risk companies do not have their terminals so they therefore inject into the bigger terminals like Bonny, Forcados, Brass and Excavos. All losses in these terminals are shared amongst all the Sole Risk companies that inject into them especially Forcados that was down for a very long time because of sabotage, all the losses were shared among the injectors.

9.19 Production and Utilization of Gas (Aggregated and Disaggregated)

Audit Templates were developed, reviewed and sent to Entities to be populated and returned to the Auditors. These templates were designed to capture the total volume of gas produced by the companies, third party injectors, gas used as fuel, gas used for reinjection and gas passed on from the flow stations to customers for other uses.

Most of the operators returned the completed gas templates to the Auditors, but others returned the templates late. Up until the time of writing this report, some of the companies are yet to return their templates.

The following companies did not return gas templates:

1. Allied Energy
2. Atlas
3. Britania U
4. New Cross
5. Prime E&P.
6. Shebha E&P.

In 2015 gas was supplied to the under listed companies:

1. Power Holding Company of Nigeria (PHCN)
2. Nigeria Liquefied Natural Gas Company (NLNG)
3. Nigeria Gas Company (NGC)
4. Independent Power Producers (IPP)
5. Eleme Petrochemical Company Limited

Gas Utilization

Gas produced during crude oil production is used for reinjection into oil reservoirs. These re-injected gas assist oil productions. Some oil reservoirs need gas pressure to push oil to the surface. If this gas pressure depletes, the desired rate of oil production will be affected. To maintain the desired reservoir pressure, the gas that has been separated from oil is re-injected to the reservoir to push oil out. This gas is not sold or lost, but re-cycled in operation.

Gas is used as feedstock in Liquefied Natural Gas plants, fertilizer plants and petrochemical plants. Gas is also used to fire turbines for power generation while unutilized gas is flared.

9.19.1 Schedule of 2014 and 2015 Total Gas Production and Utilisation

The total gas produced in 2015 was 3.251 mmscf, valued at **\$9,903b**. There are varying prices for the sales of gas in Nigeria depending on the purchaser from NGC. The price per mscf for power generation is \$1, for commercial - \$3.06, while Notore price is \$0.689 and ALSCON price is \$0.25.

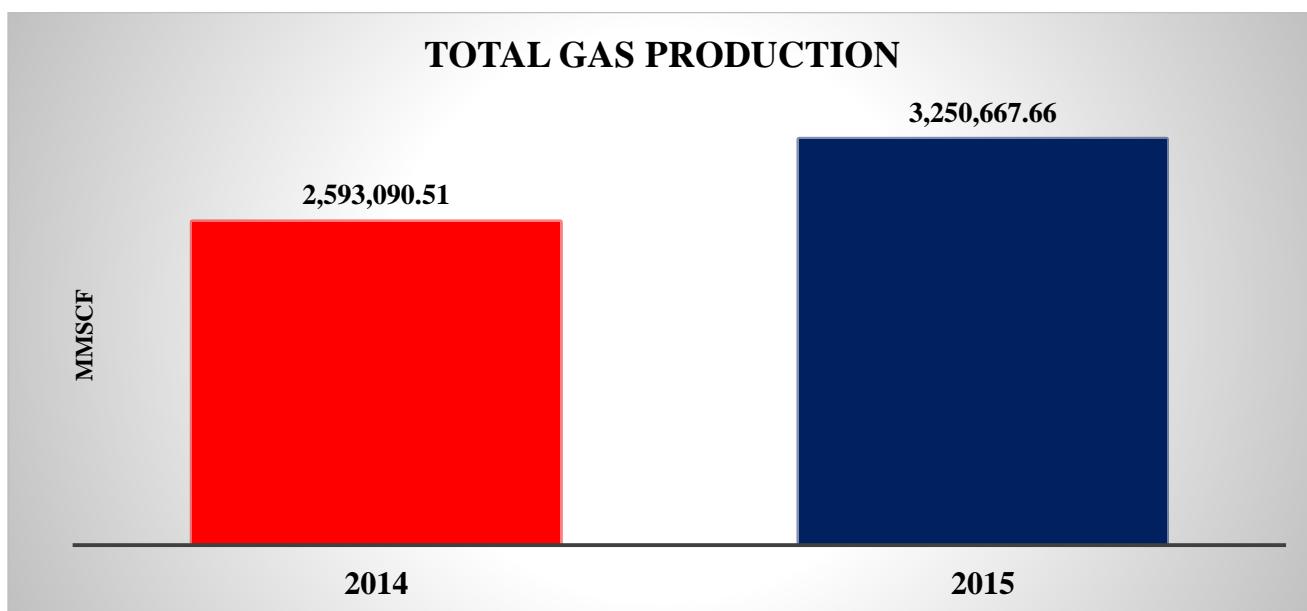
Therefore, to estimate the total value of gas produced in Nigeria, the rate for commercial buyers was used to compute value for utilized gas, re-injected gas, gas flared and unaccounted gas. The commercial rate was used because gas sold for commercial use accounts for 99% of the total gas sold in 2015. The table below shows the total gas volume and value for 2015.

Table 9.24: Comparison of 2014 and 2015 Total Gas Production and Utilisation

Usage (mmscf)	2014	2015
A. Total Gas Production	2,593,090.51	3,250,667.66
Gas Sales	2,015,096.05	1,631,309.64
Gas Flared	281,713.06	317,505.59
Utilised/Fuel Gas	175,547.66	160,144.64
B. Total (Sales, Flared, Utilised/Fuel)	2,472,356.77	2,108,959.87
C. Gas Re-injected	798,027.73	835,898.99
D. Total (B+ C)	3,270,384.50	2,944,858.86
E. Difference (A-D)	-677,293.99	305,808.80

SOURCE: NEITI 2014 AUDIT & 2015 COMPANIES GAS PROFILE

Figure 9.9: Total Gas Production



- The total volume of gas produced in 2015 was **3,250,667.66 mmscf**.
- Total gas volume produced in 2015 was higher than that of 2014 by **657,577.15 mmscf (25.36%)**
- The total volume of gas sold in 2015 was **1,631,309.64 mmscf**.
- The percentage of gas sold to gas produced in 2015 was **50.18%**.
- The volume of total gas flared to total gas produced in 2015 was **9.77%**.
- The volume total gas reinjected to support crude oil production compared to 2015 total production was **25.71%**.
- **305,808.80 mmscf** was unaccounted gas in 2015.

Appendix 21 contains details of individual companies' gas production and utilization.

9.20 Major Contributors to Unaccounted Gas

Table 9.24: Major Contributors to Unaccounted Gas

From Table 9.25, it is evident that Nigerian Agip Oil Company (NAOC) had the highest volume of unaccounted produced gas (**288,700.22 mmscf**). This was followed by Mobil (**29,617.17 mmscf**) and Chevron (**12,166.65 mmscf**).

The Companies did not explain the reasons for the unaccounted gas volumes in their operations.

UNACCOUNTED GAS CONTRIBUTORS	
COMPANY	VOLUME (MMSCF)
MOBIL	29,617.17
AMNI	78.75
CHEVRON	12,166.65
ENERGIA	5,496.30
FRONTIER	1,296.78
NAOC	288,700.22
NDPR	203.87
NPDC	1,052.89
PANOCEAN	112.50
SPDC	3,783.18

9.21 Total Gas Production to Total Gas Flared from 2009 - 2015

Table 9.25: Total Gas Production to Total Gas Flared from 2009 – 2015

Usage (mmscf)	2009	2010	2011	2012	2013	2014	2015
A. Total Gas Production	3,313,550.90	3,418,106.30	3,346,973.37	2,559,129.96	3,209,321.14	2,593,090.51	3,250,667.66
Gas Flared	1,641,516.72	1,279,272.84	884,357.98	369,500.14	373,178.46	281,713.06	317,505.59
% Flared	49.54	37.43	26.42	14.44	11.63	10.86	9.77

SOURCE: NEITI 2009 - 2014 REPORTS AND 2015 COMPANY GAS PROFILES

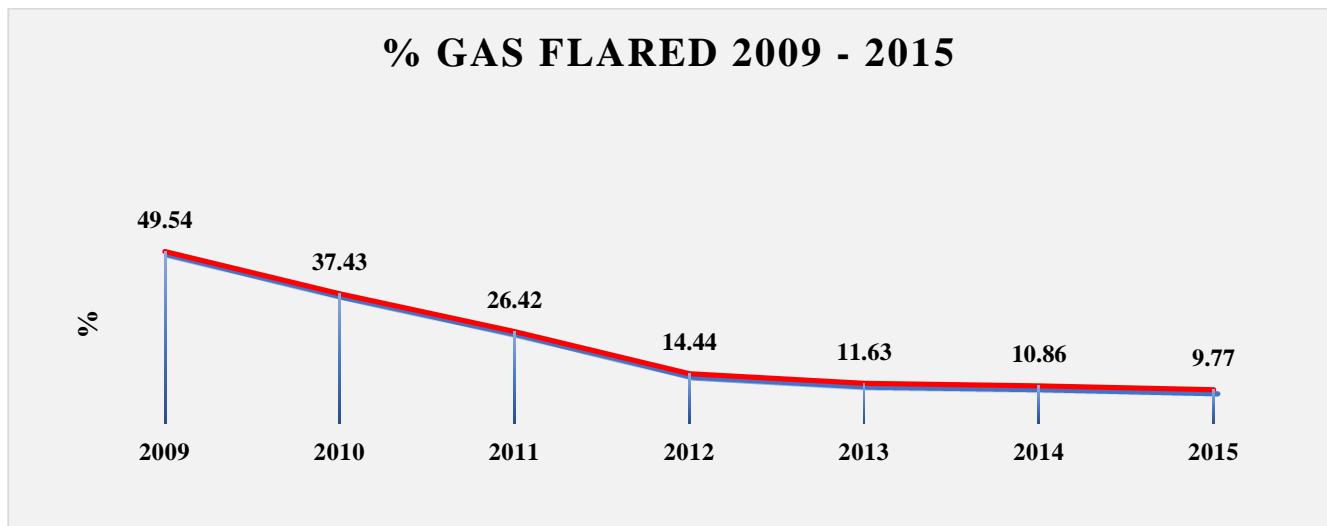


Figure 9.10: Percentage (%) Gas Flared 2009 - 2015

From Table above,

- The percentage of total gas flared to total gas produced was 9.77% in 2015, while the percentage of total gas flared to total gas produced dropped from **49.54% in 2009 to 9.77% in 2015.**

9.22 Disaggregated Gas

The Table below shows the disaggregated gas production for the operators.

Table 9.26: Summary of 2015 Gas Production and Utilization (MMSCF)

SUMMARY OF 2015 GAS PRODUCTION AND UTILIZATION (MMSCF)						
COMPANIES	GAS PRODUCED	UTILIZED/FUEL	REINJECTED	FLARED	SALES	% GAS FLARED
ADDAX	47,887.00	2,642.00	18,247.00	26,998.00	-	56.38
AENR	5,020.60	108.99	-	4,911.61	-	97.83
ALLIED	1,269.94			1,194.43	-	94.05
AITEO	5,860.12	176.37	-	5,261.16	422.60	89.78
AMNI	7,733.84	132.97	1,786.01	5,736.11	-	74.17
ATLAS	3,166.57	-	-	2,966.55	-	93.68
BRITTANIA U	597.19	-	-	118.10	-	19.78
CHEVRON	290,353.30	28,427.74	37,661.16	46,627.82	189,803.24	16.06
CONOIL	173.42	52.50	-	120.92	-	69.73
CONTINENTAL	1,340.63	132.65	-	1,207.98	-	90.11
DUBRI	2,194.18	26.80	-	2,167.38	-	98.78
ENERGIA	8,961.14	32.97	-	3,431.87	-	38.30
EENPL	124,755.40	6,524.35	113,945.56	4,285.49	-	3.44
EEP(OE)L	42,850.24	3,838.41	29,946.09	14,910.31	-	34.80
EROTON	13,626.17	113.80	-	3,955.81	9,556.56	29.03
FRONTIER	26,907.20	114.75	-	64.77	25,610.42	0.24
MIDWESTERN	2,060.98	39.35	-	2,021.63	-	98.09
MOBIL	473,148.25	36,912.29	355,774.67	50,844.12	-	10.75
MONIPULO	339.49	8.17	-	331.32	-	97.59
NAE	10,845.35	2,079.28	5,970.58	2,795.49	-	25.78
NAOC	661,231.10	34,668.18	6,215.74	21,668.74	309,978.24	3.28
NDPRL	12,877.02	138.34	-	113.19	12,421.62	0.88
NETWORK	643.66	2.36	-	641.30	-	99.63
NEWCROSS	6,276.78	-	-	5,772.60	-	91.97
NPDC	165,132.58	1,747.91	-	20,098.21	142,233.57	12.17
ORIENTAL	3,569.52	567.74	634.09	2,366.69	-	66.30
PANOCEAN	9,133.52	419.66	-	36.66	8,565.49	0.40
PILLAR	301.00	-	15.05	285.95	-	95.00
PLATFORM	7,458.61	25.14	-	7,433.45	-	99.66
PRIME	401.68	-	-	401.68	-	100.00
SEPCO	1,527.35	1,364.34	-	163.01	-	10.67
SEPLAT	80,052.34	2,510.96	-	7,641.61	69,899.77	9.55
SNEPCO	53,031.60	3,989.13	-	3,150.54	45,936.87	5.94
SPDC	639,481.99	9,173.18	5,836.16	35,229.95	593,025.88	5.51
STARDEEP	150,374.28	7,700.84	125,158.66	17,514.78	-	11.65
TEPNG	191,072.64	9,312.92	59,015.64	13,008.51	109,725.38	6.81
TUPNIL	197,635.63	7,008.97	74,849.57	1,647.09	114,130.00	0.83
UNIVERSAL	532.34	151.58	-	380.76	-	71.53
WALTERSMITH	843.01	-	843.01	-	-	-
TOTAL	3,250,667.66	160,144.64	835,898.99	317,505.59	1,631,309.64	

SOURCE: 2015 COMPANIES GAS PROFILE

KEY

COMPANY DID NOT PROVIDE GAS TEMPLATE-GAS VOLUMES FROM DPR

COMPANIES GAS FLARED VOLUMES

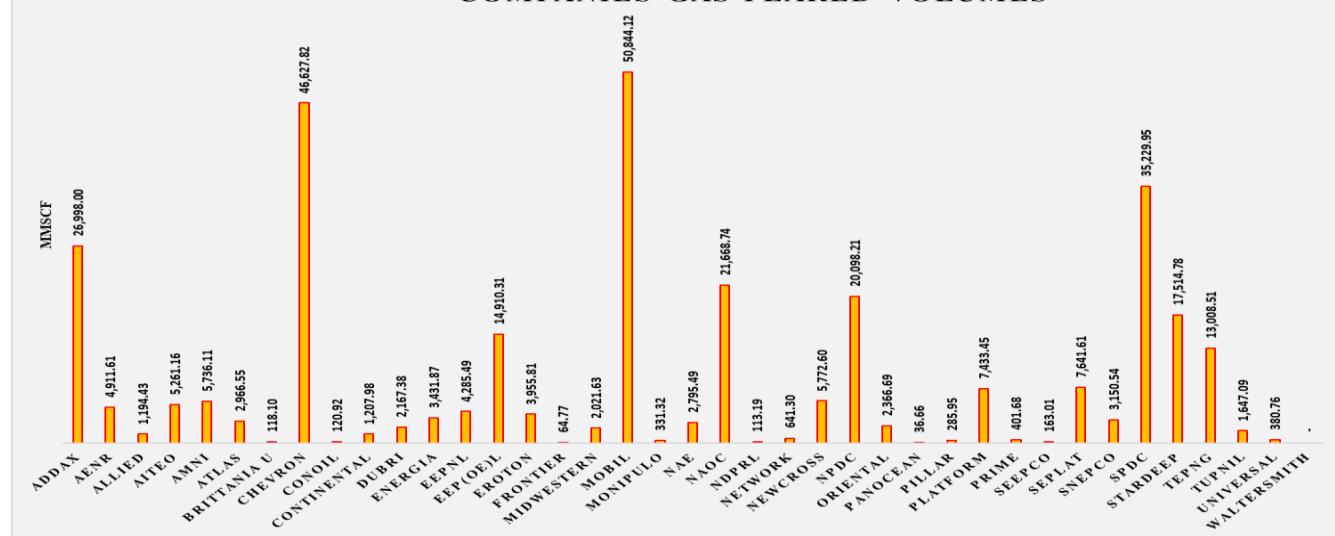


Figure 9.11: Companies Gas Flared Volumes

From the table above:

- Mobil flared the most gas in 2015 in Nigeria (**50,844.12 mmscf**), followed by Chevron with **46,627.82 mmscf**, SPDC with **35,229.95 mmscf**, ADDAX with **26,998 mmscf.**, AGIP with **21,668.74 mmscf** and NPDC with **20,098.21 mmscf**.

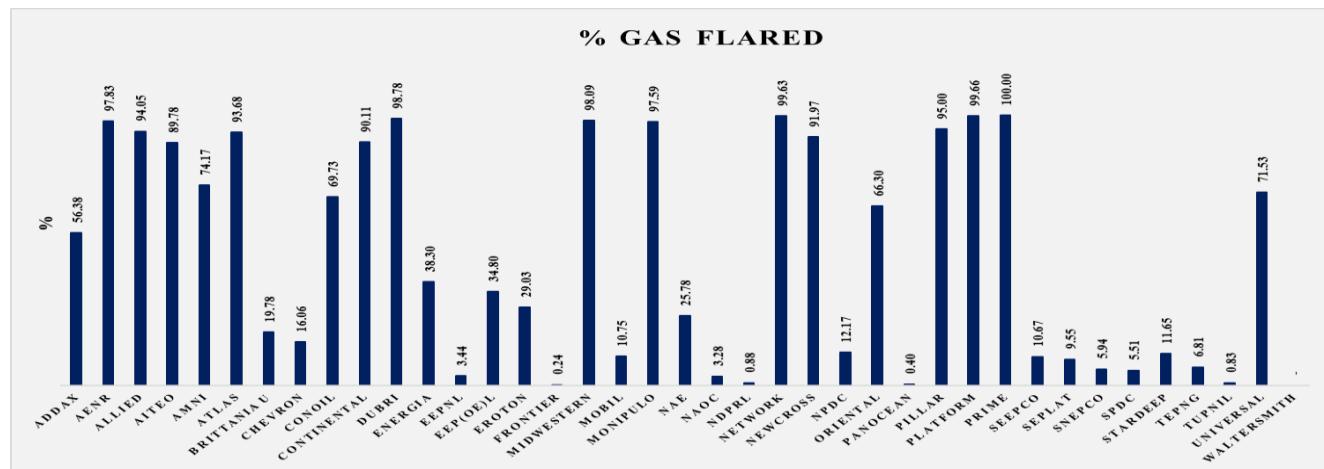


Figure 9.12: Percentage (%) Gas Flared

From the above:

- There was an increase in gas utilization by Nigerian industries, thereby reducing the volume of gas flared from 49.54% in 2009 to 9.77% in 2015.

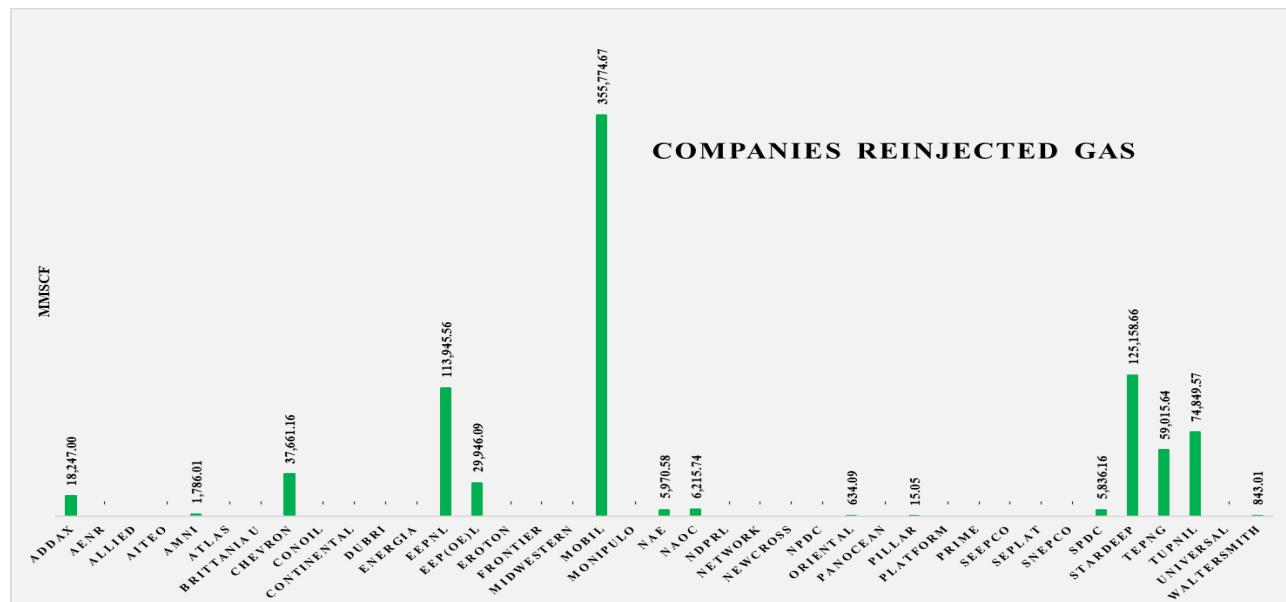
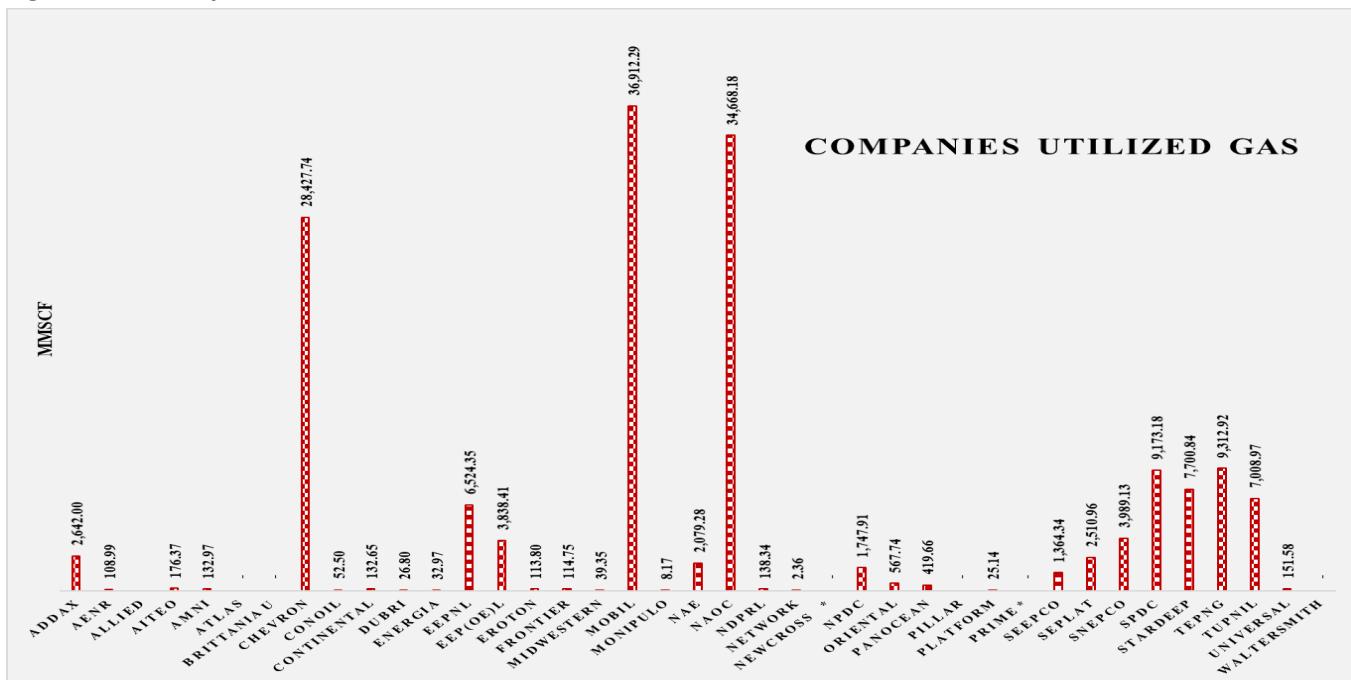


Figure 9.13: Companies Reinjected Gas

The chart above shows that.

Mobil injected the highest volume of gas (355,774.67 mmscf) to assist their weak wells to produce more crude oil, followed by Star Deep (125,158.66 mmscf) and Esso Exploration and Production Nigeria Ltd with 113,945.56 mmscf.

Figure 9.14: Companies Utilized Gas



The above shows the level of utilization of gas by the companies.

Mobil has the highest gas utilization in 2015 (36,912.29 mmscf.), followed by Nigeria Agip with (34,668.18 mmscf), Chevron with 28,427.74 mmscf etc

CHAPTER 10

10 DOWNSTREAM OPERATION

10.1. Introduction

The downstream sector of the Nigeria Oil and Gas industry involves the refining of petroleum crude oil, processing and purifying of raw natural gas, as well as the marketing and distribution of products derived from crude oil and natural gas³².

10.2. PPMC Allocations to the Refineries

NNPC has four refineries with a total nameplate capacity of 445,000 bpd and as such, Government nominates 445, 000 bpd of crude oil known as “Domestic Crude Oil Allocation” from the Joint Venture Arrangements to the refineries for local refining. PPMC allocates domestic crude oil to the refinery based on their actual refining capacities, while the balance after refinery deliveries is either exported as unprocessed crude oil or used for Alternative Production Arrangement (Offshore Processing Arrangement and SWAP/DSDP).

Table 10.1: Refineries Installed Capacity

Refinery	Capacity
Port Harcourt Refining Company (PHRC) – Old	65,000BPD
Port Harcourt Refining Company (PHRC) - New	150,000BPD
Warri Refining and Petrochemical Company Limited (WRPC)	120,000BPD
Kaduna Refining and Petrochemical Company (KRPC)	110,000BPD
Total	445,000 BPD
SOURCE:2015 PPMC Validated Template	

³² Details of downstream operations:

<http://nnpcgroup.com/NNPCBusiness/BusinessInformation/InvestmentOpportunities/DownstreamOpportunities.aspx>.

10.2.1 Total Domestic Crude Allocation

The total Domestic Crude Allocation to PPMC in 2015 was **153,918 mbbls** which is lower than 2014 allocation of 160,201 by 8,507 mbbls (5.23%).

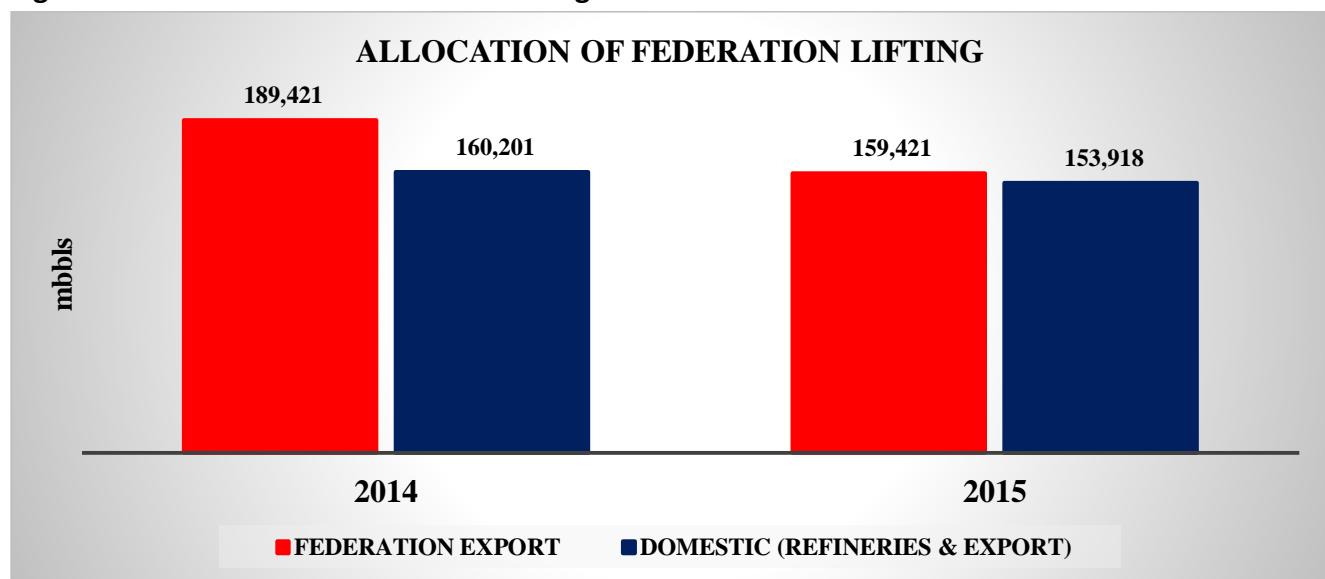
Table 10.2: Allocation of Federation Lifting 2015

ALLOCATION OF FEDERATION LIFTING (MMBBLS)		
	2014	2015
FEDERATION EXPORT	189,421	159,418
DOMESTIC (REFINERIES & EXPORT)	160,201	153,918
TOTAL FEDERATION LIFTING	349,622	313,336

SOURCE: NEITI 2009-2014 OIL & GAS AUDIT REPORTS/ COMD 2015 CRUDE PRODUCTION PROFILE

The figure shows the breakdown of federation lifting for 2014 and 2015.

Figure 10.1: breakdown of federation lifting for 2014 and 2015.



From the above:

- Federal Government Domestic Crude Allocation to PPMC in 2015 is lower than the 2014 allocation by 5,503 mbbls.

10.2.2 Schedule of PPMC Allocations in 2015

Based on the 2015 total Domestic Crude Allocation to PPMC of **153,918 mbbls**; refinery allocation was 8,740 mbbls (5.68%) representing 5.67%, while Off-shore Processing Allocation (OPA) was 89,067 mbbls (57.87%).

Table 10.3: Schedule of PPPMC Allocation In 2015

PPMC LIFTING (mbbls)	2015
Actual Supply to Refineries	8,740
PPMC Crude Oil Exchange	-
Offshore Processing	89,067
Export as Unprocessed PPMC Crude	56,111
A. Total PPMC Lifting	153,918
B. PPMC Yearly Allocation of 445 kbpd	162,425
Difference (B-A)	(8,507)

SOURCE: 2015 COMD – COSM

Observations:

- Total PPMC allocation for domestic use and export in 2015 fell by 8,507 mbbls (5.23%)
- Refinery allocation in 2015 was 8,740 mbbls (5.68%) of total allocation of 153,918 mbbls.
- Off-shore processing allocation was 89,067 mbbls (57.87%) out of the total allocation of 153,918 mbbls.

The table below shows the comparison of utilization of domestic allocation (2009- 2015)

Table 10.4: Comparison of Utilisation of Domestic Crude Allocation (2009-2015)

	Total Domestic Allocated Crude	Refinery Delivery	Unprocessed Crude Export	Offshore Processing	Crude Exchange	Crude Product Exchange
Year	MBBLs	MBBLs	MBBLs	MBBLs	MBBLs	MBBLs
2009	161,914	19,363	142,551	-	-	-
2010	166,523	34,703	97,792	27,336	950	5,742
2011	164,454	45,394	39,341	23,688	-	56,032
2012	162,343	34,927	49,214	22,755	-	55,447
2013	154,796	34,274	36,392	24,665	-	59,464
2014	160,201	26,474	56,181	21,111	-	56,435
2015	153,918	8,740	56,111	89,067	-	-

SOURCE: NEITI 2009-2014 OIL & GAS AUDIT REPORTS/ COMD 2015 CRUDE PRODUCTION PROFILE

From the above;

- Crude-Product exchange also known as SWAP was discontinued in 2015 while a new Off-shore Processing Arrangement were initiated, to process white fuels PMS, AGO, and DPK are refined at cost and sent back to Nigeria. The offshore refineries retain and pay for other products such as VGO, LPFO, Fuel Oil, Propane, and Butane at the current market price to NNPC.

Table10.5 shows the refining capacity of WRPC, PHRC, KRPC from (2009 to 2015)

Years	Domestic Allocation	Refinery Delivery	Allocation vs Delivery
	MBBLs	MBBLs	%
2009	161,914	19,363	11.96
2010	166,523	34,703	20.84
2011	164,454	45,394	27.60
2012	162,343	34,927	21.51
2013	154,796	34,274	22.14
2014	160,201	26,474	16.53
2015	153,918	8,740	5.68

SOURCE: NEITI 2009-2014 OIL & GAS AUDIT REPORTS/ COMD 2015 CRUDE PRODUCTION PROFILE

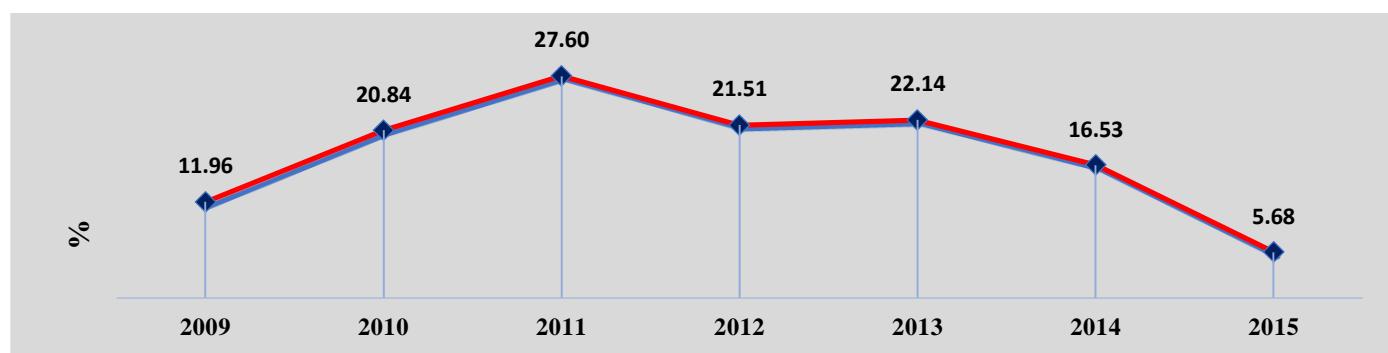


Figure 10.2.: Percentage (%) of Domestic Allocation Delivered to Refineries

From the analysis of the above;

1. The Refineries have not been able to process over **30%** of the crude oil volumes allocated to them within the period. The highest volume ever processed within these years was **27.60%** in 2011.
2. There was a progressive drop in refining capacity of the installed refineries from 2011 to 2015. 2015 recorded the lowest volume of crude oil (**8,740 mbbls**) delivery to the refineries (**5.68%**).

Recommendations:

- Due to the poor performance of the refineries, it is recommended that the refineries be privatized or outrightly sold.
- Daily allocation of 445,000 bpd should be reviewed to the actual refining capacity of the refineries and adjusted based on real-time changes.

10.3. Alternative Production Arrangements

10.3.1. Background

NNPC initiated the Offshore Alternative Production Arrangement called “Offshore Processing Arrangement (OPA) and Crude-Product Exchange (SWAP)” in 2010 to mitigate the price vulnerability, shortages in products availability and guarantee of nationwide steady supply while at the same time freeing cash for other expenditures. Due to the inability of the refineries to fully utilize the 445,000 barrels allocation NNPC entered into agreements with other companies to exchange the unutilized crude oil volumes for refined products to meet domestic use through Offshore Processing Agreement (OPA) and SWAP arrangements. In 2015 OPA was discontinued³³.

Recent inquiry into the OPA and SWAP contracts by the Senate of the Federal Republic of Nigeria revealed that the contract (written agreement) between NNPC and the Contractors was only made on 31st December 2014³⁴.

Under the OPA arrangement, NNPC delivers nominated Crude Oil grade to contractors for processing and subsequent delivery of the products to NNPC.

Table 10.12.: Summary of 2015 OPA Analysis

OFF-SHORE PROCESSING ARRANGEMENT (OPA) 2015	
CONTRACT	NET LOSS/GAIN (\$)
OPA SAHARA	(323,129,180.50)
OPA AITEO	(221,095,575.24)
OPA DUKE OIL	(91,728,715.46)
OPA NAPOIL	(44,553,458.59)
OPA CALSON	26,150,579.70
OPA DUKE OIL (STOP-GAP)	(68,929,579.61)
GRAND TOTAL	(723,285,929.70)

Source: PPMC 2015 Offshore Processing Template

³³<http://nnpcgroup.com/PublicRelations/NNPCinthenews/tabid/92/articleType/ArticleView/articleId/604/NNPC-Replaces-Offshore-Processing-Arrangement.aspx>.

³⁴<https://www.vanguardngr.com/2016/01/crude-oil-swap-contracts-how-reps-uncovered-the-underbelly-of-govt-agencies/>

From the table above;

- All the 2015 Off-shore Processing Arrangement contract with PPMC recorded losses except that of CALSON, where PPMC made a profit of **\$26,150,579.70**
- The Total financial loss to PPMC through this arrangement is **\$723,285,929.70 in 2015.**
- PPMC incurred the highest loss in SAHARA arrangement (**\$323,129,180.50**).
- The AITEO arrangement recorded a loss of **\$221,095,575.24**.
- The DUKE OIL arrangement recorded a loss of **\$160,658,295.07**.
- The NAPOIL recorded a loss of **\$44,553,458.59**.

For detailed company level analyses of Off-shore Processing Arrangement see appendix 22

Table 10.13.: Disaggregated Losses from Alternative Production Arrangement (2010 – 2014)

SUMMARY OF ALTERNATIVE PRODUCTION ARRANGEMENT 2010		
YEAR	CONTRACT	NET LOSS/GAIN (\$)
	SWAP	OPA
2010		NIGERMED
		SIR
		TRAFIGURA
		SUB-TOTAL
		62,678,449

Source: NEITI 2009-2011 Oil & Gas Audit Report

SUMMARY OF ALTERNATIVE PRODUCTION ARRANGEMENT 2011		
YEAR	CONTRACT	NET LOSS/GAIN (\$)
	SWAP	OPA
2011		SIR
		TRAFIGURA
		TALEVERAS
		AITEO
		ONTARIO
		SUB-TOTAL
		(928,868,083)

Source: NEITI 2009-2011 Oil & Gas Audit Report

SUMMARY OF ALTERNATIVE PRODUCTION ARRANGEMENT 2012		
YEAR	CONTRACT	NET LOSS/GAIN (\$)
	SWAP	OPA
2012		SIR
		TRAFIGURA
		TALEVERAS
		AITEO
		ONTARIO
		SUB-TOTAL
		(243,045,635)

Source: NEITI 2012 Oil & Gas Audit Report

SUMMARY OF ALTERNATIVE PRODUCTION ARRANGEMENT 2013		
YEAR	CONTRACT	NET LOSS/GAIN (\$)
	SWAP	OPA
2013		SIR
	TRAFIGURA	(306,161,180)
	TALEVERAS	(11,449,890)
	AITEO	(82,557,392)
	ONTARIO	(79,982,101)
SUB-TOTAL		(37,897,277)
		(518,047,840)

Source: NEITI 2013 Oil & Gas Audit Report

SUMMARY OF ALTERNATIVE PRODUCTION ARRANGEMENT 2014		
YEAR	CONTRACT	NET LOSS/GAIN (\$)
	SWAP	OPA
2014		SIR
	TRAFIGURA	(80,408,941)
	TALEVERAS	31,249,626
	AITEO	(122,629,062)
	ONTARIO	(2,803,109)
SUB-TOTAL		(24,167,834)
		(198,759,321)

Source: NEITI 2014 Oil & Gas Audit Report

Table 10.14: Summary of Alternative Production Arrangement (2010 – 2015)

SUMMARY OF ALTERNATIVE PRODUCTION ARRANGEMENT (2010 - 2015)		
	ARRANGEMENT	NET LOSS/GAIN (\$)
2010	SWAP	(654,441)
	OPA	63,332,890
2011	SWAP	(499,420,800)
	OPA	(429,447,283)
2012	SWAP	(107,252,316)
	OPA	(135,793,319)
2013	SWAP	(211,886,660)
	OPA	(306,161,180)
2014	SWAP	(118,350,380)
	OPA	(80,408,941)
2015	SWAP	DISCONTINUED
	OPA	(723,285,930)
GRAND TOTAL		(2,549,328,360)

Source: NEITI 2009-2014 Oil & Gas Audit Report - PPMC 2015 Offshore Processing Template

From the table above,

- Grand total losses from 2010 to 2015 for Offshore Processing Arrangements and SWAP were \$2,549,328,360.
- The Nigermed arrangement was profitable to NNPC; however, the contract was discontinued in 2011.
- The combined OPA and SWAP arrangement loss was highest in 2011 (\$928,868,083)
- The OPA arrangement highest loss was in 2015 (\$723,285,930).

10.5. Current Status on OPA and SWAP

Based on documents received from PPMC on the status of all OPA and SWAP contracts, NNPC carried out a reconciliation exercise in 2015. The OPA reconciliation showed a reconciled liability against OPA companies totalling **\$498,611,970.89** which arise due to under delivery of import fuel by the participating companies

Table 10.15: NNPC reconciliation on OPA and SWAP

S/N	Contract	Period	Outstanding Liability (\$)
1	NNPC-SIR OPA	2010 – 2014	20,364,236.93
2	NNPC-TRAFIGURA SWAP	2010 – 2014	2,515,301.09
3	NNPC-AITEO SWAP	2011 – 2014	109,428,750.49
4	NNPC-TALEVERAS SWAP	2011 – 2014	14,916,182.10
5	NNPC-ONTARIO SWAP	2011 – 2015	98,180,730.79
6	NNPC-AITEO OPA	2015	104,459,632.04
7	NNPC-SAHARA OPA	2015	2,957,233.78
8	NNPC-DUKE OIL OPA	2015	46,487,724.82
9	NNPC-NAPOIL OPA	2015	19,178,328.81
10	NNPC-CALSON OPA	2015	68,132,391.81
11	NNPC-DUKE OIL STOP-GAP OPA	2015	11,991,458.23
	TOTAL		498,611,970.89

Other Findings

A review of the importation documents shows that about 50% of imported fuels did not meet the international standard of permissible Sulphur content. Fifty (50) percent of the fuels imported to West Africa are from Amsterdam, Rotterdam, and Antwerp, collectively known as the “ARA” region. Trade statistics show 80 percent of the diesel exported from ARA to Africa has Sulphur content at least 100 times above the European standard. This figure soared to an average 90 percent for West Africa, with Ghana (93 percent), Guinea (100 percent), Senegal (82 percent), Nigeria (84 percent) and Togo (96 percent) receiving the biggest volumes³⁵.

Recommendations:

- In line with the recent move by NNPC/PPMC to replace OPA with Direct-Sales Direct-Purchase (DSDP), the audit recommends that NNPC/PPMC put in strict quality control measures to ensure that importers adhered strictly to terms of agreement.

³⁵https://www.publiceye.ch/en/media/press-release/swiss_commodity_traders_flood_africa_with_toxic_fuel/

- There should be time line for the recovery of these outstanding liabilities.
- NNPC should ensure that imported fuel meets strict quality control measures as it relates to international standard of permissible Sulphur content.

10.6. Refinery Mass Balance

The objective of refinery mass balance is to ensure that:

- Receipts in the refineries are correctly measured
- Refinery inventories are accurately measured and controlled
- Refinery own fuel consumption is correctly measured
- All data are correctly processed

If these requirements are not completely achieved, the reported losses can either be a true loss to the refinery or may result from a miscalculation of hydrocarbon quantities.

The refinery balance is presented in two accounts: Crude oil mass balance and Refined Products Mass Balance.

Table 10. 16: KRPC Analysis

KRPC REFINERY BALANCE (CRUDE MATERIAL BALANCE) BBLS						
CRUDE BLEND	OPENING STOCK	RECEIPT	PROCESSED	CLOSING STOCK	AUDIT CLOSING STOCK	VARIANCE
ES CRAVOS	323,247	1,244,909	1,025,477	532,238	542,679	10,441
URALS	95,712	0	0	95,712	95,712	0
UGELLI BLEND	0	0	0	0	0	0
SLOP	88,097	0	169,233	71,588	-81,136	-152,724

SOURCE: KRPC REFINERY BALANCE TEMPLATE

Audit revealed that:

- From the KRPC closing stock for the Escravos blend was lower by 10,441 bbls of crude oil while the opening stock in the slop tank was 88,097 bbls. There was no additional slop receipt into the slop tank, yet 169,238 bbls was refined.
- The refinery's closing stock was 71,588 bbls, while the Audit calculated closing stock of -81,136 bbls, with a variance of **-152,724 bbls**.

Table 10.17: KRPC Refinery Balance

KRPC REFINERY BALANCE (PRODUCTS MATERIAL BALANCE) MT								
PRODUCTS	2014 Closing Stock	Opening Stock	Production	Evacuation	Losses	Closing Stock	Calculated Closing Stock	Variance
OFF GAS								
LPG	95	0	0	0	0	94	95	1
PMS	12,338	12,338	2,739	29,725	6,723	-14,648	(21,371)	
DPK	10,581	10,581	750	19,928	10,912	-8,597	(19,509)	
AGO	9,380	9,380	2,614	14,887	7,013	-2,893	(9,906)	
LPFO	4,348	0	0	0	0	4,348	4,348	
ASPHALT	5,236	5,236	26	0	0	5,313	5,262	(51)
KERO-SOLVENT								
INTERMEDIATE PRODUCT								
INTERNAL CONSUMPTION								

KRPC recorded a total production loss of **82,230 MT**. This was not broken down by products.

Source: Refinery Balance Template

KRPC ONLY PRODUCED PMS IN THE MONTH OF JUNE

KRPC PRODUCED DPK, AGO AND ASPHALT IN THE MONTH OF JANUARY ONLY

From the above table;

- The Refinery closing stocks for all the refined products are different from the Audit calculated closing stocks.

Table 10.18: PHRC Analysis

PHRC REFINERY BALANCE (CRUDE MATERIAL BALANCE) BBLS						
CRUDE BLEND	OPENING STOCK	RECEIPT	PROCESSED	CLOSING STOCK	AUDIT CLOSING STOCK	VARIANCE
BONNY LIGHT	709,536	4,803,487	3,553,191	1,789,080	1,959,832	170,752
QUA IBOE LIGHT						0
ESCRAVOS						0
SLOP						0

SOURCE: PHRC REFINERY BALANCE TEMPLATE

PHRC DRAINED 15,112 BBLS OF WATER FROM RECEIVED CRUDE OIL

From the above table;

- There was closing stock variance of 170,752 bbls of Bonny Light and this could not be accounted for by PHRC.

Table 10.19: PHRC Refinery Balance

PHRC REFINERY BALANCE (PRODUCTS MATERIAL BALANCE) MT								
PRODUCTS	2014 Closing Stock	Opening Stock	Production	Evacuation	Losses	Closing Stock	Calculated Closing Stock	Variance
OFF GAS			10,760					
LPG	48,618	48,618	7,795	-	-	-	56,413	56,413
PMS	35,681	35,681	81,092	-	-	27,023	116,773	89,750
DPK	24,045	24,045	58,472	-	-	-	82,517	82,517
AGO	59,272	59,272	87,094	-	-	3,047	146,366	143,319
LPFO		60,210	113,627	-	-	3,047	173,837	170,790
COKE			3,611					-
LPG FLARED			9,981					-
INTERMEDIATE PRODUCT		191,813	28,979	0	0	0	220,792	220,792
INTERNAL CONSUMPTION								-

From the above;

- There was no recorded evacuation of products from Port Harcourt refinery in 2015, though there was production.
- The refinery recorded nil as the closing stock of intermediate product while the Audit calculated **220,792 mt**.
- All the processed products have refinery-closing stocks different from the Audit calculation.

Table 10.20: WRPC Analysis

WRPC REFINERY BALANCE (CRUDE MATERIAL BALANCE) BBLS							
CRUDE BLEND	OPENING STOCK	RECEIPT	PROCESSED	CLOSING STOCK	AUDIT CLOSING STOCK	VARIANCE	TRANSFER TO KRPC
ES CRAVOS	1,560,949	3,212,244	3,152,796	251,606	1,620,397	1,368,791	1,335,204
SEPLAT	289,695	355,651	-	186,051	645,346	459,295	229,452
UGELLI BLEND						0	
SLOP			31,783			0	

SOURCE: WRPC REFINERY BALANCE TEMPLATE

From the table above;

- WRPC confirms the closing stock variance as recorded by the audit as crude transferred to KRPC.
- WRPC tank farm receives crude oil for both WRPC and KRPC. KRPC's crude is then transferred to KRPC via pipeline.

Table 10.21: WRPC Refinery Balance

WRPC REFINERY BALANCE (PRODUCTS MATERIAL BALANCE) MT								
PRODUCTS	2014 Closing Stock	Opening Stock	Production	Evacuation	Losses	Closing Stock	Calculated Closing Stock	Variance
OFF GAS								
LPG	36683	36683	6599	271	0	42905	43011	106
PMS	54,257	54,257	314,112	304,222	0	59,773	64,147	4,374
DPK	11,748	11,748	74,267	74,023	0	10,864	11,992	1,128
AGO	12,327	12,327	84,172	77,410	0	19,068	19,089	21
LPFO	58,216	58,216	124,564	94,545	0	90,263	88,235	(2,028)
ASPHALT							0	-
COKE BURNT		1672						
INTERMEDIATE PRODUCT								
INTERNAL CONSUMPTION			36,651					-
WRPC RECORDED 6,380 MT OF FUELS AS LOSSES								

From the table above;

- Internal consumption of 36,651 MT as recorded by WRPC was not broken down into products.

Observation

- PHRC records should include information on volumes of products evacuated. Fuels used as internal consumption by the refineries should be broken down to product-by-product for proper material balance.

10.7. Export Sales of Refinery Products

NNPC exports intermediate products from the refinery such as Naphtha, Long Residue, Low and High Pour Fuel Oil. In 2015, NNPC only exported Low Pour Fuel P Oil (LPFO) and Naphtha as shown in the table below:

Table 10.22: Summary of 2015 Export Sales of intermediate Products

SUMMARY OF 2015 EXPORT SALES OF INTERMEDIATE PRODUCTS	
Product	Quantity (Mt)
Naphtha	29,324.32
LPFO	87,169.99

10.8. Coastal and Marine Shipments

Coastal and Marine shipment operations in PPMC started in the late 90's, with the liberalization of the downstream sector of the Petroleum industry, which saw DPR licensing some companies to construct and operate Petroleum products Storage Depots at the Coastal areas.

Coastal and marine shipment are designed to provide the following services; Evacuation of petroleum products from NNPC coastal refineries to various discharge ports in Nigeria or outside Nigeria as may be designated by PPMC. Delivery of petroleum products to water-fed depots with restricted draft jetties of 6.0 to 11metres as well as conduct ship-to-ship transfer of cargo from import tankers and discharge same at waters depots among other functions.

Table 10.23: Summary of Coastal and Marine Shipments in 2015

Summary of Coastal Liftings In 2015	
PRODUCT	VOLUME (MT)
DPK	6,947,407.60
PMS	22,394,324.75

Source: PPMC Vessel Movement Template

The benefits of Coastal and Marine shipment include:

- Bulk sales of Petroleum products to Storage facilities to complement the distribution efforts of NNPC/PPMC depots nationwide
- Increased availability of petroleum products nationwide due to bulk product allocation to storage facilities owned by The Depot and Petroleum Products Marketers Association (DAPMAN) members
- Reduction of the strain of bridging on NNPC/PPMC Depots nationwide
- Evacuation of Refinery Depots to ensure ullage and avoid a shutdown of the Refinery

Although the coastal and marine shipment program has numerous benefits as stated above, the downside of it is that it removes focus from the need to restore the integrity of the NNPC/PPMC pipelines for use in product movement to all the NNPC/PPMC Depots nationwide

It is noteworthy to know that the coastal and marine shipment like any other program has its challenges. A few of such challenges are stated below:

- Inadequate product stock to meet demand by Coastal Marketers; resulting from incessant vandal activities that affect Refineries operations.
- Non-dredging of jetties by NPA which limits the size of vessels for product discharge/deliveries

- Shortage of shuttle vessels to expedite Ship-to-Ship transshipment operations, leading to colossal cost in demurrage.
- Aged vessels resulting in frequent rejection of shuttle vessels by Mother Vessels resulting in high demurrage cost on PPMC.

10.9. Depot Balances

Depot balance is the material balance of refined products in the depot. Depot balance looks at the opening stock in the tanks, refined products transferred from one depot to another through pipelines or rails, the transfers out either by rail or trucks, dewatering, internal consumption, associated losses and closing stock.

For this audit, the auditors carried out the material balance for PMS, AGO, and DPK and determined the Closing Stock (Calculated Closing Stock) as against the Closing Stock reported by the depots. The variance between the Depot reported closing stock and Audit closing stock is shown as "Variance."

Table 10.24.: PMS Depot Balance

DEPOT BALANCES FOR PMS 2015 (MT)												
DEPOT	CLOSING STOCK AS REPORTED BY 2014 AUDIT	CLOSING STOCK AS REPORTED BY PPMC FOR 2014	2015 OPENING STOCK	RECEIPTS	SALES/ TRANSFERS OUT	DE-WATER TO SLOP	OTHERS	CLOSING STOCK	UNACCOUNTED LOSSES	CALCULATED CLOSING STOCK	VARIANCE	
ATLAS COVE	9,164.19	9,167.97	9,167.97	1,729,515.50	1,726,517.39	-	286.90	12,132.85	-	11,879.17	(253.68)	
WARRI	104,959.00	-	-	303,394.00	303,394.00	-	-	-	-	-	-	
CALABAR	1,401.08	4,366.00	4,366.00	150,147.38	153,536.81	43,100.00	-	2,924.00	2,623.28	(44,746.70)	(47,670.70)	
MOSIMI	48,893.05	48,923.25	48,923.25	956,442.31	996,433.15	-	8,578.31	14,224.96	110.23	243.87	(13,981.09)	
SATELLITE	5,520.56	5,520.56	5,520.56	397,666.81	401,031.09	-	349.57	1,864.10	-	1,806.71	(57.38)	
IBADAN	17,885.20	17,904.83	17,904.83	243,504.11	254,685.66	-	1,103.06	6,649.29	12.84	5,607.39	(1,041.90)	
ILORIN	4,543.59	4,572.28	4,572.28	20,089.04	26,833.46	-	30.96	4,572.28	6,828.22	(9,031.31)	(13,603.59)	
BENIN	17,849.00	19,407.00	19,407.00	261.00	2,393.00	-	319.00	17,427.00	285.00	16,671.00	(756.00)	
ORE	2,478.67	2,478.67	2,478.67	-	-	-	26.43	2,478.67	14.35	2,437.90	(40.77)	
SULEJA	10,993.00	7,183.00	7,183.00	-	3,613.00	1,196.00	-	3,819.00	239.00	2,135.00	(1,684.00)	
MINNA	1,680.00	1,680.00	1,680.00	47.00	-	-	-	1,606.00	27.00	1,700.00	94.00	
KADUNA	(59.00)	-	-	38,223.00	38,096.00	-	-	-	459.00	(332.00)	(332.00)	
JOS	7,405.00	7,405.00	7,405.00	-	-	-	-	7,499.00	-	7,405.00	(94.00)	
GOMBE	4,629.00	4,629.00	4,629.00	-	-	-	-	4,559.00	-	4,629.00	70.00	
MAIDUGRI	411.00	411.00	411.00	-	-	-	-	396.00	-	411.00	15.00	
PH	1,495.95	2,869.00	2,869.00	395,265.76	395,465.78	598.00	-	2,659.00	1,190.02	880.96	(1,778.04)	
ABA	15,446.00	15,446.00	15,446.00	19,648.00	18,340.10	2,610.00	-	14,144.00	19.48	14,124.42	(19.58)	
ENUGU	5,696.00	5,822.00	5,822.00	183.00	-	-	-	5,715.00	290.00	5,715.00	-	
MKD	-	-	-	-	-	-	-	-	-	-	-	
YOLA	2,712.00	2,712.00	2,712.00	-	-	-	-	2,683.00	-	2,712.00	29.00	
GUSAU	1,779.00	1,795.00	1,842.00	252.00	-	-	-	1,450.00	172.00	1,922.00	472.00	
KANO	3,616.00	3,639.00	3,639.00	4.00	1,643.00	-	-	1,612.00	1.00	1,999.00	387.00	
3RD PARTY												
TOTAL				165,978.54	4,254,642.89	4,321,982.42	47,504.00	10,694.21	108,415.13	12,271.41	28,169.39	

I MT = 1,356,447,193,5108 liters for Liquid of 737.22 kg/m³ for PMS

Source: PPMC Depot balance Templates

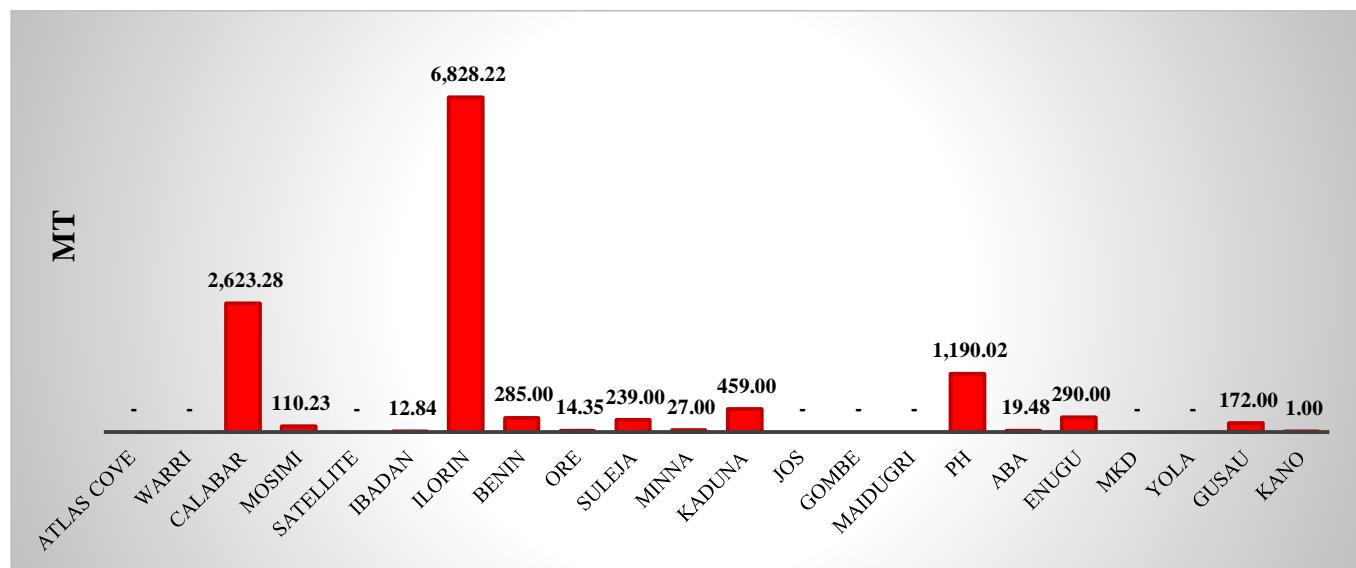


Figure 10.3.: Depot with unaccounted losses (PMS)

From the above;

- Ilorin depot had the highest volume of unaccounted losses (6,828.22 mt). Calabar lost (2,623.28mt), Port Harcourt lost 1,190.02 mt, Kaduna lost (459.00 mt), Enugu (290.00 mt), Benin (285.00 mt), Suleija (239.00 mt) and Gusau (172.00 mt).
- Total unaccounted losses recorded were 12,271.41 mt, which is equivalent to 16,645,519.655 liters. At the regulated PMS pump price of N86.50, the total unaccounted losses equal **N1,439,837,450.16**

Table 10.25.: AGO Depot Balance

DEPOT BALANCES FOR AGO 2015 (MT)											
DEPOT	CLOSING STOCK AS REPORTED BY 2014 AUDIT	CLOSING STOCK AS REPORTED BY PPMC FOR 2014	2015 OPENING STOCK	RECEIPTS	SALES/ TRANSFERS OUT	DE-WATER/ TO SLOP	OTHERS	CLOSING STOCK	UNACCOUNTED LOSSES	CALCULATED CLOSING STOCK	VARIANCE
ATLAS COVE	43,749.02	25,344.20	25,344.20	-	15,803.36	-	21,936.87	8,213.86	2.58	(12,398.61)	(20,612.47)
WARRI	(15,674.00)	-	-	303,394.00	303,394.00	-	-	-	-	-	-
CALABAR	6,623.58	6,728.00	6,728.00	6,287.00	5,482.39	52.00	-	7,352.00	175.01	7,305.59	(46.41)
MOSIMI	65,906.10	44,216.04	44,216.04	9,915.80	30,226.42	-	238.22	18,356.70	16.34	23,650.86	5,294.16
SATELLITE	362.92	362.92	362.92	-	-	-	11.18	374.10	-	351.74	(22.36)
IBADAN	22,168.22	17,109.70	17,109.70	1,199.70	14,094.54	-	77.40	4,137.46	-	4,137.46	-
ILORIN	2,743.40	2,752.00	2,752.00	-	-	-	-	2,747.70	4.30	2,747.70	-
BENIN	7,819.00	7,839.00	7,839.00	14,669.00	14,654.00	-	(1.00)	7,857.00	8.00	7,847.00	(10.00)
ORE	594.95	595.12	595.12	-	-	-	6.20	588.24	0.86	588.06	(0.18)
SULEJIA	20,345.00	20,120.00	20,120.00	76.00	2,643.00	527.00	-	16,873.00	67.00	16,959.00	86.00
MINNA	12,433.00	12,411.00	12,411.00	23.00	19.00	-	-	12,351.00	35.00	12,380.00	29.00
KADUNA	12.00	-	-	24,115.00	24,069.00	-	-	-	84.00	(38.00)	(38.00)
JOS	7,302.00	7,098.00	7,098.00	54.00	-	-	-	7,462.00	-	7,152.00	(310.00)
GOMBE	2,044.00	2,042.00	2,042.00	-	311.00	-	-	1,731.00	-	1,731.00	-
MAIDUGRI	1,324.00	1,324.00	1,324.00	-	-	-	-	1,317.00	-	1,324.00	7.00
PH	(2,312.10)	2,296.00	2,296.00	41,061.91	42,527.10	-	-	915.00	234.29	596.53	(318.47)
ABA	4,489.23	4,543.00	4,543.00	15,187.00	15,050.46	247.00	-	3,137.00	1,338.68	3,093.86	(43.14)
ENUGU	(37,422.00)	3,407.00	3,407.00	4,051.00	-	-	-	7,628.00	526.00	6,932.00	(696.00)
MKD	-	-	-	-	-	-	-	-	-	-	-
YOLA	1,330.00	1,332.00	1,332.00	-	-	-	-	1,329.00	-	1,332.00	3.00
GUSAU	2,309.00	2,482.00	2,520.00	-	-	-	-	2,491.00	76.00	2,444.00	(47.00)
KANO	8,255.00	8,315.00	8,315.00	-	141.00	-	-	8,170.00	3.00	8,171.00	1.00
3RD PARTY	-	-	-	-	-	-	-	-	-	-	-
TOTAL			170,354.98	420,033.41	468,415.27	826.00	22,268.87	113,031.06	2,571.07	96,307.19	

Source: PPMC Depot balance Templates

1 MT = 1,129.9435028249 liters for Liquid of 885 kg/m3 for AGO

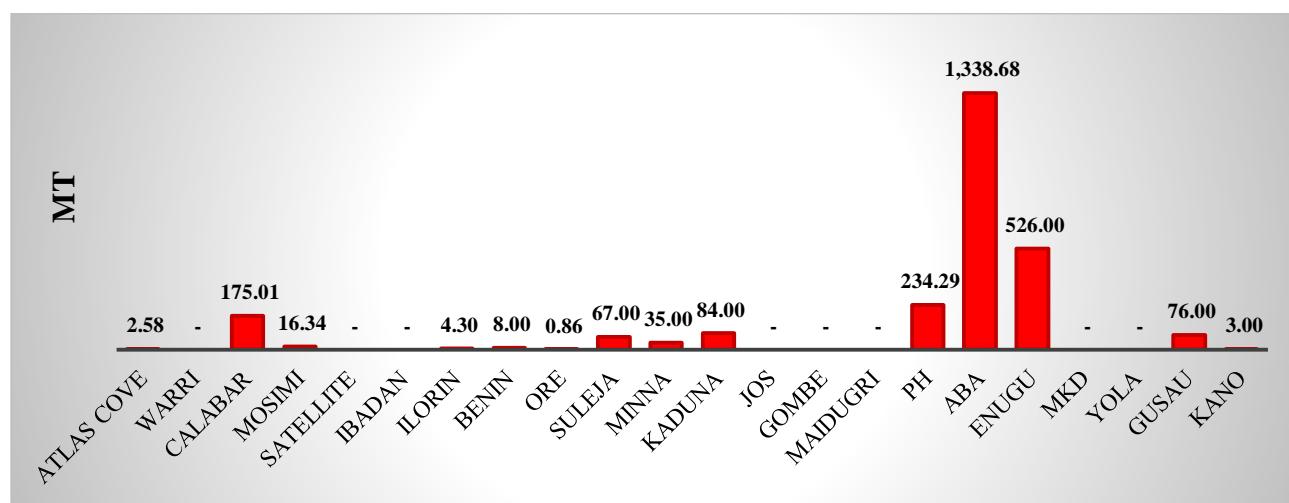


Figure 10.4" Depot with unaccounted losses (AGO)

From the above;

- The highest loss was Aba (1338.68 mt). This was followed by Enugu (526.00 mt), PortHarcourt (234.29 mt), Calabar (175.01 mt), Kaduna (84.00 mt) and Suleija (67.00 mt).
- Total unaccounted loss recorded is 2,571.07 mt which is equivalent to 2,905,163.84 liters. At the regulated AGO pump price of N130, the total unaccounted losses is **N377,671,299.20**

Table 10.26.: DPK Depot Balance

DEPOT BALANCES FOR DPK 2015 (MT)											
DEPOT	CLOSING STOCK AS REPORTED BY 2014 AUDIT	CLOSING STOCK AS REPORTED BY PPMC FOR 2014	2015 OPENING STOCK	RECEIPTS	SALES/ TRANSFERS OUT	DE-WATER/ TO SLOP	OTHERS	CLOSING STOCK	UNACCOUNTED LOSSES	CALCULATED CLOSING STOCK	VARIANCE
ATLAS COVE	-	-	-	-	-	-	-	-	-	-	-
WARRI	(81.00)	81.00	-	-	73,644.00	-	-	-	-	(73,644.00)	(73,644.00)
CALABAR	-	-	-	-	-	-	-	-	-	-	-
MOSIMI	64.78	1,021.72	1,086.50	-	-	-	-	1,085.68	0.82	1,085.68	-
SATELLITE	-	-	-	-	-	-	-	-	-	-	-
IBADAN	1,113.56	-	1,113.56	-	-	-	-	1,113.56	-	1,113.56	-
ILORIN	412.46	24.60	437.06	-	-	-	-	433.78	3.28	433.78	-
BENIN	1,119.00	-	1,119.00	-	-	-	-	1,004.00	115.00	1,004.00	-
ORE	361.62	-	361.62	-	-	-	(215.66)	145.96	-	577.28	431.32
SULEJA	4,788.00	23.00	4,811.00	-	-	-	-	4,804.00	-	4,811.00	7.00
MINNA	8,419.00	(134.00)	8,285.00	-	-	-	-	8,275.00	19.00	8,266.00	(9.00)
KADUNA	(66.00)	66.00	-	12,148.00	12,169.00	-	-	-	141.00	(162.00)	(162.00)
JOS	1,365.00	52.00	1,417.00	-	-	-	-	1,417.00	-	1,417.00	-
GOMBE	124.00	5.00	129.00	-	-	-	-	129.00	-	129.00	-
MAIDUGRI	787.00	-	787.00	-	-	-	-	787.00	-	787.00	-
PH	2,694.00	-	2,694.00	68,548.46	70,107.71	-	-	1,129.00	154.26	980.49	(148.51)
ABA	37.89	1.11	39.00	8,659.00	7,610.84	350.00	-	737.00	1.88	735.28	(1.72)
ENUGU	802.00	8.00	806.00	-	-	-	-	804.00	10.00	796.00	(8.00)
MKD	-	-	-	-	-	-	-	-	-	-	-
YOLA	849.00	(6.00)	843.00	-	-	-	-	822.00	-	843.00	21.00
GUSAU	279.00	9.00	289.00	-	-	-	-	286.00	16.00	273.00	(13.00)
KANO	1,233.00	6.00	1,239.00	-	-	-	-	1,239.00	-	1,239.00	-
3RD PARTY	-	-	-	-	-	-	-	-	-	-	-
TOTAL			25,456.74	89,355.46	163,531.55	350.00	-215.66	24,211.98	461.24	-49,314.93	

I MT = 1,223.7655265251 liters for Liquid of 817.5 kg/m3 for HHK

Source: PPMC Depot balance Templates

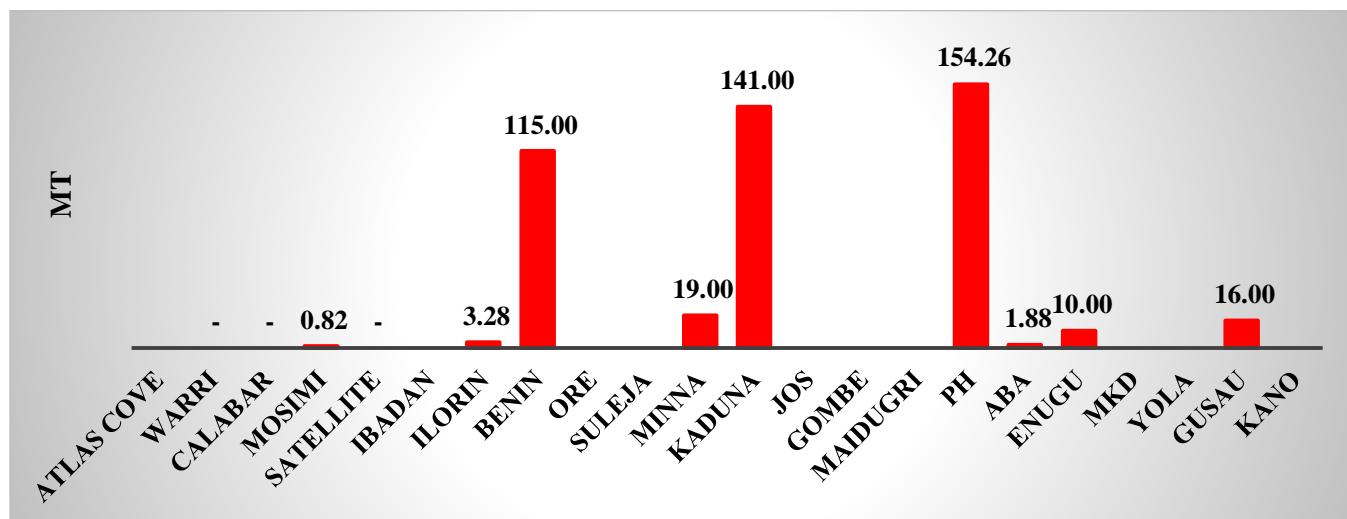


Figure 10.5: Depot with unaccounted Losses (DPK)

From the above,

- Total unaccounted loss recorded was 461.24 mt, which is equivalent to 564,449.61 liters. At the regulated DPK pump price of N50.00, the total unaccounted losses are **N28,222,480.50**

PPMC Response to the losses:

- *Parameter change: Gain or Loss of product occurs when parameters (Temperature and Specific Gravity) used for fiscalization vary between the time of opening stocktaking and that of closing stock taking.*
- *Passing valves within the tank farm.*
- *Leaking tanks, weak seals, and leaking pontoon.*
- *Obsolete loading meters causing over/under delivery.*
- *Sludge accumulation in product tanks leading to wrong fiscalization.*
- *Dewatering operations at the depot.*
- *Re-injection of products from slop tanks.*

10.10 Crude Oil and Product Losses

Crude oil theft may refer to any activity relating to the theft or sabotage of crude oil, facilities or installations in the form of illegal bunkering, pipeline vandalism, fuel scooping, illegal refining and transport and oil terrorism. Illegal oil bunkering is the most commonly known form of oil theft, and it involves direct tapping of oil. Though oil bunkering is a necessity for maritime shipping within the maritime sector, it becomes an illegal oil bunkering when it is carried out without necessary statutory licenses or valid documents, or in violation of the Nigerian Maritime Sector and the guidelines made by the legal institutions regarding it.

PPMC commenced marine shipment of Crude oil in February 2011 to supply three refineries (2 in Port Harcourt and 1 in Warri) as against using pipelines to transport crude oil to the refineries. This was as a result of the constant attacks on the crude supply pipelines which over the years has created serious challenges for the refineries.

Figure 10.6.: Inland Pipeline Networks



10.11. Analysis of Crude Oil Losses

Table 10.27: Domestic Crude Oil Losses

2015 PPMC CRUDE LINE PERFORMANCE				
MONTH	PIPELINE SEGMENT	LOSS (BBLS)	UNIT (\$)	VALUE (\$)
JANUARY				-
FEBRUARY				-
MARCH				-
APRIL	WARRI-KADUNA	112,996	56	6,327,776
MAY	WARRI-KADUNA	38,230	60	2,281,184
JUNE	WARRI-KADUNA	19,847	60	1,184,270
JULY	WARRI-KADUNA	189,369	60	11,299,648
AUGUST				-
SEPTEMBER				-
OCTOBER	WARRI-KADUNA	365,588	50	18,279,400
NOVEMBER	WARRI-KADUNA	30,764	43	1,322,852
DECEMBER				-

SOURCE:PPMC CRUDE LINE PERFORMANCE TEMPLATE

From the table above;

- PPMC has five major crude pipelines that deliver crude to the four refineries namely: CNL-WRPC, ESCRAVOS-WRPC, WARRI-KADUNA, NPDC-WARRI and BONNY-PHRC.
- Due to the incessant vandalism of these pipelines, PPMC resorted to marine shipment in delivering crude oil to WRPC and PHRC.
- WRPC tank farm receives crude oil for both WRPC and KRPC.
- WRPC transfers crude to KRPC for refining using the WARRI-KADUNA inland pipeline. This line is exposed to vandalism, and as such, domestic crude oil theft is common on this line.
- In May, June, and July, water was pumped to WARRI-KADUNA to displace line fill in preparing the segment for sectioning. The crude deliveries in these months are not losses.
- Crude losses from theft occurred in April, October, and November. Total volume lost is **509,348 bbls.**
- Estimated value of lost crude oil is **\$25,930,028**

10.12. Product Losses

Pipeline Movement

PPMC is the dominant supplier of Refined Petroleum Products to the existing domestic and growing export markets within West African Sub-Region. It operates an integrated network of about 5,120 km of pipeline constructed through communities and different terrains (Land, Swamps, Forests, Savannah, Rivers, etc.). Petroleum products are distributed through the pipeline network connecting 21 loading Depots and 24 Pump stations across the nation. Petroleum Products supply and distribution through the pipeline is the most efficient and cheapest means of transportation. Vandals have severely damaged the integrity of these pipeline networks over the years for illegal removal of petroleum products³⁶.

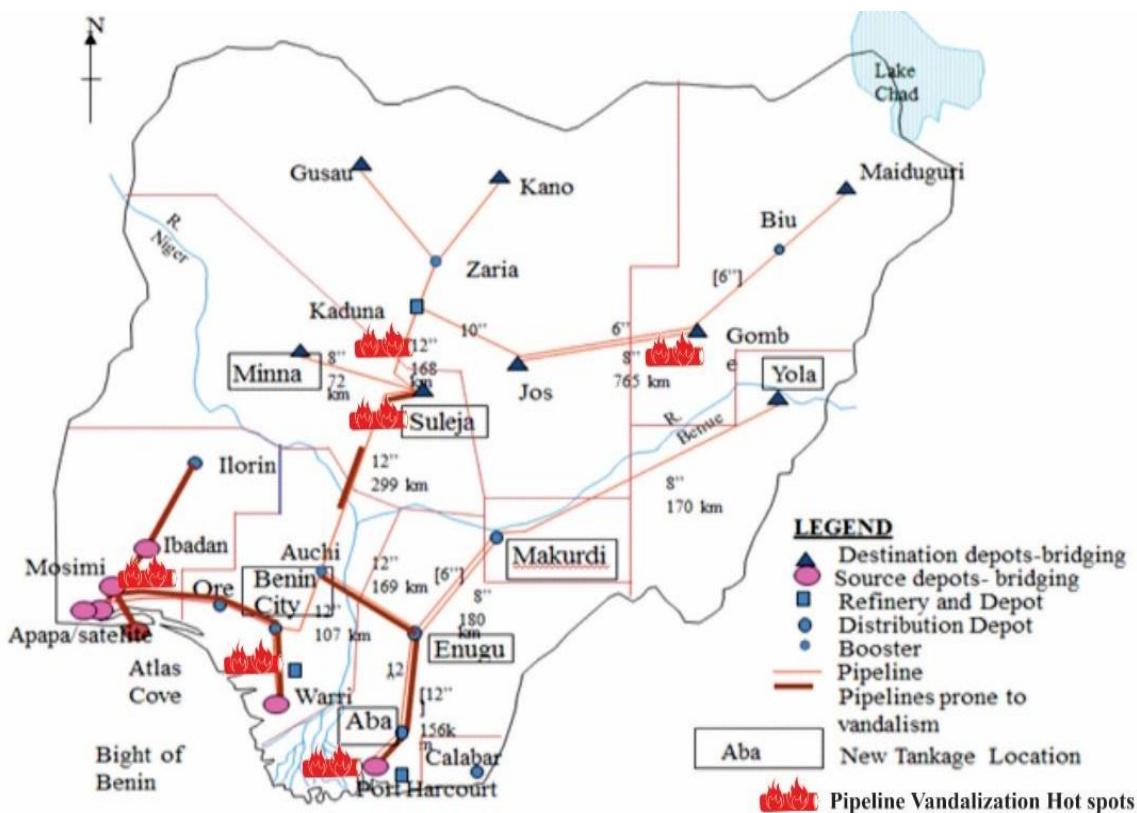
Below are the existing pipeline networks operated by PPMC.

- System 2a: Warri-Benin -Ore-Mosimi
- System 2cx: Warri- Auchi-Benin
- System 2b: Atlas Cove-Mosimi-Ibadan-Ilorin
- System 2c: Escravos-Warri-Kaduna (Crude Line)
- System 2d: Kaduna-Zaria-Kano, Zaria-Gusau, Kaduna-Jos-Gombe-Maiduguri
- System 2e: Portharcourt-Aba-Enugu-Yola
- System 2ex: Portharcourt-Aba-Enugu-Makurdi-Yola

³⁶ <http://ppmc.nnpcgroup.com/>

- System 2cx: Enugu-Auchi, Auchi-Suleja-Kaduna, Suleja-Minna
- System 2dx: Jos-Gombe –Maiduguri

Figure 10.7: PPMC Product line Network



From the above, there are about six identified vandalism hotspots in the country namely: Atlas Cove-Mosimi network segment (system 2b), Warri-Benin network segment (system 2a), Suleja-Kaduna network segment (system 2cx), Jos-Gombe network segment (system 2dx) and Port Harcourt-Aba network segment (system 2ex).

Table 10.28: Total Line Breaks – 2009 to 2015

TOTAL LINE BREAKS 2009 - 2015																	
YEAR	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
LINE BREAKS	497	999	517	533	452	971	2,258	3,674	3,258	2,318	1,305	5,518	4,468	3,708	3,571	3,732	2,832

SOURCE PPMC

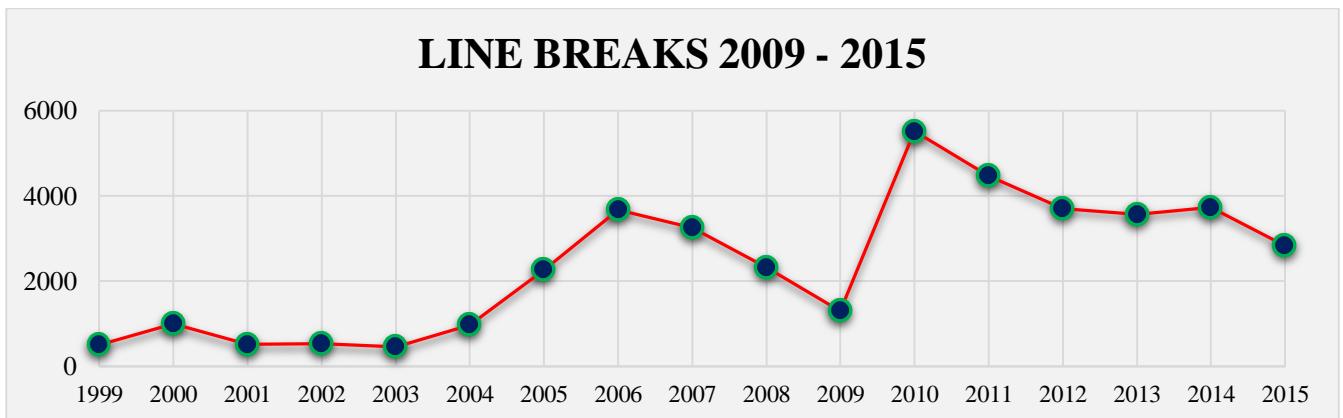


Figure 10.8.: Line Breaks 2009 to 2015

From the above;

- The graph shows the trend of line break incidents in the downstream operations from 1999 to 2015.
- From 2003 to 2006 there was a sharp increase in the number of line breaks. This gradually reduced to 2009. The highest number of incidents was recorded in 2010. After this, the trend gradually came down in 2015.

Table 10. 29: Summary of 2015 Pipeline Losses

SUMMARY OF 2015 PIPELINE LOSSES (MT)						
MOSIMI AREA						
PRODUCT	FROM	RECEIVED			TOTAL	VARIANCE
PMS	Atlas Cove		Mosimi	Satellite		
	1,726,518.15		956,442.31	397,666.81	1,354,109.12	(372,409.03)
	Mosimi			Ibadan		
	332,190.19			243,504.11	243,504.11	(88,686.08)
	Ibadan			Ilorin		
	21,214.75			17,369.53	17,369.53	(3,845.22)
AGO	Atlas Cove		Mosimi			(464,940.33)
	15,803.36		9,915.80		9,915.80	(5,887.56)
PH AREA						
PMS	PHRC			Aba		
	21,015.05			19,642.44	19,642.44	(1,372.61)
DPK	10,991.91			8,841.00	8,841.00	(2,150.91)
AGO	41,830.73			19,239.00	19,239.00	(22,591.73)

Source: PPMC PIPELINE MOVEMENT TEMPLATE

Table 10.30: Overall Pipeline losses in 2015

OVERALL PIPELINE LOSSES IN 2015				
PRODUCT	(MT)	Ltrs	Unit Price (N)	Value (N)
PMS	(466,313)	632,528,960	83	52,499,903,692
AGO	(28,479)	32,179,661	120	3,861,559,322
DPK	(2,151)	2,632,320	47	123,719,023
TOTAL				56,485,182,038

1 MT = 1,356.4471935108 liters for Liquid of 737.22 kg/m³ for PMS

1 MT = 1,129.9435028249 liters for Liquid of 885 kg/m³ for AGO

1 MT = 1,223.7655265251 liters for Liquid of 817.5 kg/m³ for DPK

PRICES ARE BASED ON AVERAGE DEPOT PRICES IN 2015

From the above;

- Total volume of PMS lost due to pipeline breakages and product theft was 632,528,960 liters (**N52,499,903,692**)
- The total volume of AGO lost due to pipeline breaks and product theft was 32,179,661 liters valued at **N3,861,559,322**
- Volume of DPK lost due to pipeline breaks and product theft was 2,632,320 liters, valued at **N123,719,023**.

10.13. Subsidy Claims and Payments

10.13.1 Determination of Subsidy payments

Subsidy was introduced as a temporary measure to stabilise the price of petroleum products and cushion the comparatively high price of imported products while the local refineries underwent rehabilitation, it has since become a standing policy of successive governments. PPPRA manage and provide guideline on the application of PSF³⁷.

10.13.2 Approved Allocation to Import in 2015

Table below provides insight on the relative performances of imported PMS quantity discharged in metric tonnes and their contributions to the overall volume discharged in 2015:

Table 10.31: Summary of approved allocation to import by NNPC and other Marketers in 2015

S/N	NAME	Total Allocation	Total Discharge Other Marketers	Total Discharge NNPC	Other Marketers	Remarks
			Metric Tonnes	Metric Tonnes	%	
1	NNPC	5,400,000.00	5,791,596.00	7,913,842,132.00	107.25%	Exceed Allocation
2	A A RANO	140,000.00	87,670.00	118,901,437.00	62.62%	Under Importation
3	A&E PETROL NIG.	105,000.00	46,247.97	64,030,043.00	44.05%	Under Importation
4	ACORN PETROLEUM LTD	45,000.00	14,821.00	20,587,183.00	32.94%	Under Importation
5	AITEO ENERGY LTD	280,000.00	26,405.00	36,893,443.00	9.43%	Under Importation
6	ASCON OIL CO.LTD	90,000.00	61,574.00	85,673,659.00	68.42%	Under Importation
7	AVIDOR OIL & GAS LTD	90,000.00	-	-	0.00%	Under Importation
8	A-Z	240,000.00	212,902.00	273,231,552.00	88.71%	Under

³⁷See details on the guidelines <http://pppra.gov.ng/wp-content/uploads/2014/11/psfguidelines.pdf>

	PETROLEUM LTD					Importation
9	BLACKLIGHT ENERGY	180,000.00	-	-	0.00%	Zero Importation
10	BLUEFIN ENERGY LTD	90,000.00	56,638.00	78,419,809.00	62.93%	Under Importation
11	BOVAS & CO. LTD	260,000.00	192,495.00	266,041,943.00	74.04%	Under Importation
12	BULK STRATEGIC RES.	135,000.00	14,913.00	20,817,135.00	11.05%	Under Importation
13	CONOIL PLC	180,000.00	134,425.51	186,269,429.00	74.68%	Under Importation
14	CYBERNETIC S INT.SER.	60,000.00	-	-	0.00%	Zero Importation
15	DEEJONES PET	270,000.00	213,126.00	293,882,263.00	78.94%	Under Importation
16	DOZZY OIL & GAS	150,000.00	89,374.00	123,455,593.00	59.58%	Under Importation
17	EMADEB ENERGY SER.	165,000.00	151,584.00	207,351,263.00	91.87%	Under Importation
18	FATGBEMS LTD	45,000.00	48,116.01	66,717,708.00	106.92%	Exceed Allocation
19	FOLAWIYO ENERGY LTD	300,000.00	138,387.42	191,989,990.00	46.13%	Under Importation
20	FORTE OIL PLC	340,000.00	199,938.00	275,983,050.00	58.81%	Under Importation
21	FRADO OIL & GAS LTD	45,000.00	7,207.00	9,946,049.00	16.00%	Under Importation
22	FRESH SYNERGY LTD	45,000.00	30,776.00	42,510,334.00	68.39%	Under Importation
23	FYNFIELD OIL LTD	120,000.00	89,210.00	123,610,315.00	74.34%	Under Importation
24	GULF TREASURES	90,000.00	98,053.81	136,159,361.00	108.95%	Exceed Allocation
25	HEYDEN PET.	150,000.00	42,442.49	58,674,752.00	28.29%	Under Importation

26	HUDSON PETROLEUM	45,000.00	-	-	0.00%	Zero Importation
27	HYDE ENERGY	90,000.00	43,203.01	58,999,892.00	48.00%	Under Importation
28	IBAFON OIL LTD	70,000.00	44,987.30	61,451,574.00	64.27%	Under Importation
29	INDEX PETROLEUBE LTD	45,000.00	-	-	0.00%	Zero Importation
30	INTEGRATED OIL & GAS	240,000.00	209,768.00	289,160,818.00	87.40%	Under Importation
31	LINC NIG. LTD.	55,000.00	8,034.00	11,097,571.00	14.61%	Under Importation
32	MARK-CLAIRE	90,000.00	-	-	0.00%	Zero Importation
33	MAINLAND OIL & GAS	120,000.00	89,113.00	123,083,001.00	74.26%	Under Importation
34	MASTERS ENERGY LTD	400,000.00	356,865.94	494,691,838.00	89.22%	Under Importation
35	MATRIX ENERGY LTD	360,000.00	378,284.00	504,022,624.00	105.08%	Exceed Allocation
36	METTLE ENERGY	75,000.00	-	-	0.00%	Zero Importation
37	MOBIL OIL PLC	225,000.00	124,232.00	170,775,359.00	55.21%	Under Importation
38	MRS OIL & GAS	325,000.00	338,664.00	469,663,821.00	104.20%	Exceed Allocation
39	MRS OIL NIG.PLC	310,000.00	179,979.43	249,815,620.00	58.06%	Under Importation
40	NEPAL OIL & GAS	105,000.00	79,710.33	110,662,616.00	75.91%	Under Importation
41	NIPCO	390,000.00	348,188.00	480,474,639.00	89.28%	Under Importation
42	NORTHWEST PET.	440,000.00	416,723.00	576,696,762.00	94.71%	Under Importation
43	OANDO PLC	330,000.00	209,057.45	288,937,077.00	63.35%	Under Importation

44	OBAT PET. LTD	90,000.00	20,973.00	28,935,462.00	23.30%	Under Importation
45	OTHNIEAL BROOK LTD	45,000.00	45,287.57	63,006,884.00	100.64%	Exceed Allocation
46	RAHAMANIY YA OIL & GAS	150,000.00	105,081.00	145,335,127.00	70.05%	Under Importation
47	RAINOIL LTD	390,000.00	342,758.00	474,280,933.00	87.89%	Under Importation
48	SAHARA ENERGY LTD	300,000.00	250,250.00	345,815,517.00	83.42%	Under Importation
49	SAMON ENERGY LTD	25,000.00	15,114.00	21,137,880.00	60.46%	Under Importation
50	SHORELINK OIL	270,000.00	239,117.00	332,170,193.00	88.56%	Under Importation
51	STOCK GAP FUELS	90,000.00	93,142.74	128,961,024.00	103.49%	Exceed Allocation
52	SWIFT OIL LTD	335,000.00	286,365.00	397,514,751.00	85.48%	Under Importation
53	TECHNO OIL	240,000.00	239,861.77	342,196,694.00	99.94%	Under Importation
54	TEMPOGATE	60,000.00	25,340.66	35,029,357.00	42.23%	Under Importation
55	TOTAL NIG.PLC	510,000.00	443,379.00	614,057,822.00	86.94%	Under Importation
56	TSL LOGISTICS	70,000.00	31,099.44	43,283,498.00	44.43%	Under Importation
57	VINE OIL LTD	95,000.00	27,664.00	38,509,241.00	29.12%	Under Importation
	Subtotal-Other Marketers	10,000,000	6,948,549	9,580,913,906	69.49%	
	Subtotal – NNPC	5,400,000	5,791,596	7,913,842,132	107.25%	
	Grand total	15,400,000	12,740,145	17,494,756,038	82.73%	

Source: PPPRA record

Findings:

56 marketers and NNPC participated in the subsidy regime in 2015, of which;

- a. 6 marketers and NNPC exceeded the allocated quantity (metric tonne).
- b. 7 marketers did not import any petroleum products (i.e. zero importation).
- c. 43 marketers imported products but did not meet the required target (i.e. under importation)

Implications:

1. For cases of under-importation and zero importation, there are possibilities that the marketers obtained foreign exchange that could have been diverted for other uses.

Recommendations:

1. PPPRA should put in place an efficient means of monitoring actual imports against the approved allocation to import.
2. Marketers with zero importation/ under importation should be investigated in order to ascertain that they have not obtained foreign exchange, which could have been diverted for other uses.

10.13.3 Product Importation and Distribution

In the year under review, **N536.371 billion** was claimed as subsidy on **19.271 billion litres** of PMS and **N117.145 billion** was claimed on **1.752 billion litres** of HHK. Below is the summary of qualities supplied which form the basis for which subsidies were processed by the PPPRA and advised to NNPC:

Table 10.32: 2015 Summary of quantities supplied and subsidy claims by NNPC and other Marketers

Marketer	PMS		HHK		Sub Total Subsidy (N)
	Volume (Ltrs)	Subsidy Amount (N)	Volume (Ltrs)	Subsidy Amount (N)	
NNPC	8,053,282,800	200,135,269,212	1,751,996,428	117,144,938,941	317,280,208,154
Other Marketers	11,217,873,201	336,235,390,478	-	-	336,235,390,478
GRAND TOTAL	19,271,156,001	536,370,659,690	1,751,996,428	117,144,938,941	653,515,598,632

From the foregoing, the volume of petroleum products supplied by the marketers through the PPPRA under the PSF scheme in 2015 was **11.218 billion litres** for Premium Motor Spirit (PMS). Other marketers did not import Dual Purpose Kerosene (DPK/HHK) during the period under review. NNPC imported **8.054 billion litres** of PMS and **1.752 billion litres** of DPK, while the refineries produced **5billion litres** of PMS and **5 million litres** of DPK during the same period.

10.13.4: Subsidies claimed by other marketers in 2015

In the year under review, other marketers claimed **N117.145 billion as subsidy** on **1.752 billion litres** of HHK. Below is the breakdown of qualities supplied, which form the basis for which subsidies were processed by the PPPRA and advised to Ministry of Finance for payment:

Table 10.33: Summary of quantities supplied and subsidy claims by other Marketers in 2015

S/No.	Marketer	PDT	Observed Shoretank Quantity (Litres)	Subsidy Amount (N)
1	A&E PETROL NIGERIA LTD	PMS	133,874,341.54	4,313,245,458.59
2	A.A. RANO NIG. LTD	PMS	103,792,941.31	3,817,006,828.00
3	A-Z PETROLEUM PRODUCTS LTD	PMS	374,307,575.81	10,396,086,931.85
4	ACORN PETROLEUM PLC	PMS	40,894,842.00	1,071,356,946.59
5	AITEO ENERGY RESOURCES LTD	PMS	36,893,443.00	348,643,036.35
6	ASCON OIL COMPANY LTD	PMS	101,796,770.05	2,461,040,473.21
7	BLACLIGHT ENERGY LTD	PMS	131,896,972.63	2,360,826,805.60
8	BLUEFIN ENERGY LTD	PMS	78,309,888.94	2,196,863,485.70
9	BOVAS & COMPANY LTD	PMS	277,215,639.38	9,042,161,384.52
10	BULK STRATEGIC RESERVE LTD	PMS	65,097,756.11	2,534,376,209.18
11	CAPITAL OIL & GAS INDUSTRY LTD	PMS	99,568,822.57	7,104,616,367.13
12	CONOIL PLC	PMS	209,318,665.03	5,620,534,105.64
13	DEE JONES PETROLEUM & GAS LTD	PMS	303,590,140.41	10,429,353,871.67
14	DOZZY OIL AND GAS LTD	PMS	145,527,898.51	4,977,827,762.07
15	EMADEB ENERGY SERVICES LTD	PMS	237,155,695.83	6,996,495,386.51
16	FATGBEMS PET CO. LTD	PMS	66,568,001.25	2,691,109,574.68
17	FOLAWIYO ENERGY LTD	PMS	232,443,986.14	5,328,837,184.33
18	FORTE OIL PLC (FORMERLY AP PLC)	PMS	257,679,403.21	7,274,951,634.45
19	FRADRO INTERNATIONAL LTD	PMS	9,946,049.00	197,926,375.10
20	PRESH SYNERGY LTD	PMS	79,782,936.00	2,768,752,823.01
21	FYNFIELD PETROLEUM COMP. LTD	PMS	123,437,044.85	3,014,418,179.28
22	GULF TREASURES LTD	PMS	163,520,885.74	4,000,370,281.43
23	HEYDEN PETROLEUM	PMS	58,544,922.46	1,359,760,678.81
24	HONEYWELL OIL & GAS LTD	PMS	19,839,349.00	1,279,439,617.01
25	HUDSON PETROLEUM LTD	PMS	13,071,213.00	441,545,575.14
26	HYDE ENERGY (NIG) LTD	PMS	80,739,281.00	1,603,895,218.60

27	IBAFON OIL LTD	PMS	61,417,700.33	2,615,352,866.61
28	INTEGRATED OIL & GAS	PMS	355,251,867.46	10,238,400,543.97
29	LINC NIGERIA LTD	PMS	21,341,216.00	395,755,905.66
30	MAINLAND OIL & GAS LTD	PMS	184,251,343.68	5,721,303,563.21
31	MASTERS ENERGY OIL & GAS LTD	PMS	589,212,568.95	17,602,846,491.90
32	MATRIX ENERGY LTD	PMS	579,227,390.50	14,915,537,362.56
33	MOBILE OIL NIGERIA PLC	PMS	231,561,632.19	5,148,414,026.96
34	MRS OIL & GAS COMPANY LTD	PMS	469,048,772.26	14,499,858,142.82
35	MRS OIL NIG. LTD	PMS	331,707,871.66	11,771,382,557.50
36	NEPAL OIL AND GAS SERV. LTD	PMS	135,369,411.31	4,771,393,522.34
37	NIPCO PLC.	PMS	555,309,603.43	18,118,082,843.99
38	NORTHWEST PETROLEUM & GAS LTD	PMS	575,692,022.39	17,818,186,162.40
39	OANDO PLC	PMS	393,296,329.53	11,703,048,521.31
40	OBAT OIL & PETROLEUM LTD	PMS	48,415,863.71	1,318,833,769.01
41	OTHNIEL BROOKS LTD	PMS	62,974,716.97	1,911,393,973.90
42	RAHAMANIYYA OIL AND GAS LTD	PMS	173,439,554.02	4,384,526,495.40
43	RAINOIL LTD	PMS	485,475,380.00	14,024,619,037.60
44	SAHARA ENERGY RESOURCE LTD	PMS	355,142,812.89	11,344,350,223.04
45	SAMON PETROLEUM FZE	PMS	21,126,676.10	231,337,103.30
46	SHORELING OIL AND GAS SERV LTD	PMS	350,306,393.76	11,351,053,806.30
47	STOCKGAP FUELS LTD	PMS	149,647,777.88	4,328,893,886.68
48	SWIFT OIL LTD	PMS	397,003,246.49	14,343,074,650.63
49	TECHNO OIL LTD	PMS	380,073,761.05	11,330,315,040.50
50	TEMPOGATE OIL & ENERGY COMP.	PMS	49,420,472.00	1,111,674,349.26
51	TOP OIL & GAS DEV. COMP. LTD	PMS	-	765,706,335.83
52	TOTAL NIGERIA PLC	PMS	692,164,228.83	18,148,942,304.11
53	TSL LOGISTIC LTD	PMS	66,024,433.84	1,173,006,610.89
54	VINE OIL & GAS LTD	PMS	59,155,689.00	1,516,658,186.26
TOTAL			11,217,873,201.00	336,235,390,478.39

Source: PPPRA Subsidy claimed and approved profile

Findings:

1. Debt note issued to other marketers totaled **N2.835 billion** acknowledging refund to the Federal Government. Below is the summary of reconciliation of debt demand note issued vis-à-vis record of evidence of actual refund:

Table 10.34: Reconciliation of the Debt Note issued to other marketers and the actual refund thereon

Description		N
A	Debt Demand Note issued	2,835,345,719.05
B	Actual Refund record	0
	Variance (C= A- B)	2,835,345,719.05
	% of variance (C/ A)	100%

Source: PPRA subsidy claimed and approved profile; and Schedule of other oil marketing Companies 2015 processed over-recovery due

2. **N336.235 billion** subsidy was processed for fifty four (54) marketers. However, PPPRA could not provide Sovereign Debt Statements (SDS) as well as Schedule of Sovereign Debt Note (SDN) issued thereon.

Implications:

1. PPPRA did not keep accurate databank of all other marketers issued with Debt Notes- the databank could have established details of issued debt notes and redemption.
2. PPPRA did not carry-out reconciliation with CBN/FMF on processed subsidy vis-à-vis actual payment; and determining whether marketers with zero importation/under importation was allocated FOREX.

Recommendations:

- PPPRA should always adhere to the Part IV (Section E subsection 4 & 7 with respect to responsibilities of stakeholders/ operators) of the revised guidelines for the administration of Petroleum Support Fund (PSF).

10.13.5: Subsidies Claimed by NNPC in 2015

In the year under review, N317.280 billion was subsidy approved by PPPRA and advised to the NNPC. Below is the summary of the advised subsidy:

Table 10.35: Summary of quantities supplied and subsidy claims by NNPC in 2015

Product	Total Volume (Ltrs)	Total Subsidy (N)
PMS	8,053,282,800.44	200,135,269,212.48
HHK	1,751,996,428.44	117,144,938,941.67
TOTAL		317,280,208,154.15

Findings:

- Out of the **N317.780 billion** approved subsidy by PPPRA, **N316.721 billion** was utilized and deducted at source from the sales proceeds of domestic crude oil. Below is summary of reconciliation of PPPRA approved subsidy to NNPC and the actual subsidy deducted by NNPC:

Table 10.36: Reconciliation of PPPRA approved subsidy to NNPC

Description	N
PPPRA approved subsidy to NNPC	317,280,208,154.15
Actual Subsidy deducted by NNPC	316,720,837,527.84
Variance	559,370,626.31
% of Variance	0.18%

10.14. Review of PPPRA- PSF Financial Statements

The 2015 audited financial statement for Petroleum Support Fund (PSF) was not made available for audit review.

CHAPTER 11

11 SUMMARY OF KEY FINDINGS, IMPLICATIONS AND RECOMMENDATIONS

S/ No.	Issue	Findings	Implications	Recommendations	Entity's Response	Further audit comments
NNPC						
1	Unaccounted Export Sales	\$586.011 million accounted for unreconciled export sales receivables in the year under review. This is as a result of previous year unexplained / unreconciled difference.	The difference may continuously be carried forward.	There should be proper reconciliation of unexplained / unreconciled difference of previous audit years	NNPC is ready to collaborate with NEITI to arrest the situation.	NNPC to reconcile with the age-old analysis of export debtors.
2	Lifting arrangement model by NPDC	NNPC lifted, marketed and sold on behalf of NPDC based on the following business models: <ul style="list-style-type: none"> Model 1- NPDC direct assets (i.e. 100% NPDC owned assets) - this relates to OML 64, 65, 66, 111 and 119. NNPC Lifting and Sales under this category belongs to NPDC. Model 2- NPDC jointly owned assets operated by NPDC through JV with First Hydrocarbon, Shoreline, ND Western, El Crest and Neconde- this relates to OML 26, 30, 34, 40 and 42. NNPC Lifting and Sales under this category belongs to NPDC. But the value of the divested OMLs must be paid. 	Non-segregation of production and lifting profiles relating to federation from NPDC in line with the business models implies non-disclosure and transparency. It may lead to product diversion and huge revenue loss to the federation	NNPC should always track production and lifting profiles relating to federation from NPDC and make adequate disclosure in line with the approved business models.	For model 4, NNPC response was that NEITI should confirm the figures from NPDC and also note that Aroh field productions are taken as JV Chevron crude injections and lifted as part of Forcados crude while Egbeema productions are lifted as part of Bonny JV crude .	NNPC should always track production and lifting profiles relating to federation from NPDC based on the four (4) models.

	<ul style="list-style-type: none"> Model 3- NPDC jointly owned assets and not operated by NPDC but Seplat. This relates to OML 4, 38 and 41. NNPC Lifting and Sales under this category belongs to NPDC. But the value of the divested OMLs must be paid. Model 4 - Non-Equity Assets operated by NPDC on behalf of NNPC for transfer of knowledge/ technical capacity building of NPDC personnel. This relates to OML 11, 20, 49 and 51. NNPC Lifting and Sales under this category do not belong to NPDC but NNPC. <p>Based on four models above relating to NNPC, neither NNPC nor NPDC provided production and lifting profiles for each model.</p>				
3	Unaccounted ₦317.476 billion	₦317.476 billion accounted for unreconciled sales receivables in the year under review. This is as a result of un-explained receivables.	This imply shortfall in amount to be remitted by NNPC as domestic sales proceeds to the federation account.	NNPC should account for ₦317.476 billion and remit the said amount to the federation without delay.	No Response
4	Pan Ocean Long Outstanding Debt	Pan Ocean had a participating agreement with NNPC to explore and produce oil from OML98 as operator for itself and on behalf of NNPC. This agreement was dated August 1 st , 1979 and the distribution of the participating interests is as	Recovery of only the principal debt amount put at \$135,793,096.28 without consideration of interest, results to loss in time value of money.	There should be an independent valuation of Panocean indebtedness with a view to determining true fair value of interest thereon from 1985.	With the approval of the GMD , a committee has been constituted on recovery of interest accrued on the indebtedness.

	<p>follows: NNPC 60% and PAN OCEAN 40%. There is an outstanding debt of \$135,793,096.28 due from Pan Ocean to NNPC</p> <p><u>GENESIS OF INDEBTEDNESS:</u></p> <p>In 1984, Pan Ocean signed a crude oil Sales contract with NNPC. Unlike the other third parties lifting Nigerian crude oil, Pan Ocean, being a producing oil company in Nigeria, was exempted in establishing Letters of Credit for the purpose of paying for the crude oil lifted. This was a general concession given to all oil producing companies operating in the country that signed a crude oil sales contract. Payments for the shipments were made 30 days from the bill of lading date.</p> <p>The contract with Pan Ocean was effectively performed until 1985 when there was a general glut in world oil market and crude oil prices collapsed to below \$10 per barrel. Between January and February 1985, some cargoes were lifted by Pan Ocean with payments due in February and March 1985 respectively. The total outstanding payment from those cargoes was put at \$135,757,342.97. Further lifting</p>	<p>Delay in recovery of principal amount of \$135,793,096.28 since 1985 has denied the Federal Government of Nigeria the needed revenue to embark on developmental projects for its citizens.</p>	<p>Intensive recovery efforts should be instituted by the Federal Government of Nigeria to recover both principal and interest.</p>	
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		<p>was disallowed as a result of its inability to pay for those cargoes.</p> <p>After an in-house reconciliation by Crude Oil Marketing Division (COMD), the net principal indebtedness of Pan Ocean was put at \$135,793,096.28.</p> <p>NNPC has recovered the indebtedness.</p>				
5	Inconsistency in Pricing Methodology	<p>At the point of remittance into the CBN-NNPC domestic crude oil (Naira) accounts by NNPC, NNPC based remittance on another valuation report using a revised pricing option which is usually lower than the initial valuation.</p> <p>Pricing methodology was not consistently applied for domestic crude sales leading to a revenue loss of \$90.176 million.</p>	<p>Inconsistencies in pricing methodology by NNPC is causing huge revenue loss to the Federal Government of Nigeria.</p>	<p>NNPC should discontinue double valuation practice and apply agreed pricing methodology consistently</p> <p>NNPC should account for the shortfall of \$90.176 million due to inconsistent pricing methodology</p>	<p>The practice is to make margin for NNPC. However, it has been discontinued.</p>	<p>Extent of discontinuation of double valuation will be established in the subsequent oil & gas audit. However, NNPC should account for the shortfall.</p>
6		<p>NNPC deducted first line charge of N60.997 billion for “Crude and Product Oil losses”; N112.818 billion for “Pipeline repairs & maintenance”; and N316.721 billion for “Subsidy deduction”.</p>	<p>Deduction of subsidy as first line charge from domestic crude sales proceeds contradicts the provisions in the Petroleum Support Fund. Also, other</p>	<p>NNPC should adhere to the institutional framework of the Petroleum Support Fund (PSF) which requires, among other things, that</p>	<p>NNPC has special consideration from the Government thereby allowing it to consider first line charge.</p>	<p>NNPC should adhere to prevailing guidelines on subsidy and the Constitution of the Federal Republic of Nigeria as</p>

		deductions are contrary to section 80(1) of the Constitution of the Federal Republic of Nigeria 1999.	all subsidy claims and payment should be drawn from the PSF. Also, first-line deduction should be as appropriated. Also, NNPC should strictly adhere to the provision of the constitution of the Federal Republic of Nigeria 1999.		no special consideration or arrangement is above the constitution.	
7	NLNG Loan repayment and interest payment	NNPC received from NLNG, Loan repayment, interest and dividend totaling \$1,076,011,598 which was not paid into the federation account.	Lack of documentary evidence makes verification and reconciliation exercise difficult.	NNPC transferred the sum of \$1,076,011,598 into the federation account.	N/A	All receipts from NLNG should be paid directly into the Federation account and not NNPC Account.
8	Pipeline Transportation Fee	a. NNPC did not populate templates nor confirm receipt of payments made on behalf of other IOCs for Pipeline Transportation Fee by SPDC. There was no trace of such payment in the JV Morgan bank statement either b. The total Pipeline Transportation Fee was \$24,609,523, this represented 55% counterpart share of Federation (NNPC) in the SPDC/NNPC Joint Venture	Non population of template by NNPC on Transport Fee makes the validation and reconciliation of payment difficult for the auditors	i. NNPC should reconfirm receipt of \$16,477,740.02 and ₦1,597,275,831.11 with documentary evidence. ii. NNPC should populate the template as required by NEITI	N/A	NNPC should take the audit exercise more seriously

		infrastructural development of Oil Pipeline. c. These fees were paid directly to NNPC as part of its share of the JV arrangements. d. NNPC did not populate the Pipeline Transportation Fee Template and did not account for the income.			
COMD					
9	NNPC Pricing of Export Crude Oil	<p>a. The Federation export crude oil monthly Average Selling Price (\$) per barrel was computed using the monthly total of sales and monthly total of quantity (barrels). Therefore, the annual average selling price was \$52.16 per barrel in 2015 (2014: \$101.91 per barrel)</p> <p>b. The pricing methodology was consistently applied on the export crude sales except for Ebok crude type lifted by Messrs. Dans Global (one of the NNPC crude oil off-takers) resulting to revenue loss of \$735,724.68 (Schedule of pricing shortfall- Export</p>	<p>Non-application of pricing methodology for Ebok Crude Type is inconsistent with other pricing methodology used for others. This is capable of causing revenue loss to Federation.</p>	<p>Consistent pricing methodology should be used for all Export Crude Sales.</p>	<p>a. The case of inconsistency in the pricing methodology relates to Ebok crude type lifted by Messrs. Dans Global (one of the NNPC crude oil off-takers). Considering the crude oil price valuation carried-out, the unit price was \$53.776 while the Bill of lading quantity of the cargo was 624,189 barrels and total value of \$33,566,387.66. However, the company had remitted \$32,830,731.98 to the Federation account at an out turn quantity of 610,609 barrels based on the out turn report³⁸</p> <p>For proper transparency and accountability consistent pricing methodology should be used for all Export Crude Sales.</p>

³⁸ Detailed report prepared by the discharging terminal to record discrepancies in the form of over, short and damaged cargo as manifested and cargo checked at a time and place of discharge from ship.

		Crude).			from the independent inspectors and the GMD approval to use net out turn volumes. COMD thereafter issued a valuation after receiving DPR position on the out turn.	
10	NNPC Pricing of Domestic Crude Oil	<p>a. 153.24 million barrels of domestic crude oil was sold in 2015 and NNPC delivered 37% to PPMC as unprocessed crude being exported; 57% as offshore processing; and 6% as Refineries deliveries. NNPC treated this as 100% Sales to itself- hence acting as both Seller and Buyer of the Federation Crude.</p> <p>b. NNPC is expected to pay for domestic crude lifted into CBN-Crude Oil & Gas Revenue – Naira Account.</p> <p>c. On monthly basis, NNPC transfers into the bank account a lump sum which CBN typically describes as "<i>Multi Credit Entry - Transfer of NNPC Fund from pool account to Oil & Gas Account</i>".</p> <p>d. On aggregate, the total dollar equivalent for the year under review was \$7.775 billion (i.e. N1.505 trillion) based on exchange rate of N167 in January, N195.58 in February (as against N197 CBN buying rate), N196 in March to June,</p>	Inconsistent pricing methodology is capable of causing huge revenue loss to the federation	<p>i. Consistent pricing Methodology should be used</p> <p>ii. NNPC should account for the revenue shortfall of N4.024 million</p>	<p>a. The practice of double valuation vis-à-vis retaining margin has been stopped based on the disposition of the current administration.</p>	<p>This will be confirmed in the next audit.</p> <p>NNPC should account for N4.024 million in term of revenue loss for 2015 Oil and Gas Audit.</p>

	<p>N195.95 in July (as against N196 CBN buying rate), N196 in August, N196 in September, N195.95 in October (as against N195.98 CBN buying rate), N196 in November and N195.97 in December (as against N196 CBN buying rate). The inconsistent application of CBN exchange rate, owing to NNPC not converting on the date of invoice but aggregating all Dollar invoices for the month and converting at an average exchange rate, led to under payment of N4.024 million (<i>Schedule of converting aggregated monthly dollar invoices into naira</i>)</p> <p>e. All transfers into CBN NNPC Domestic Crude Oil Revenue (Naira) Account are made net of Crude & Product oil losses, pipeline repairs & maintenance; and subsidy deduction. N60.997 billion accounted for “Crude and Product Oil losses”; N112.818 billion accounted for “Pipeline repairs & maintenance”; and N316.721 billion accounted for “Subsidy deduction”.</p> <p>f. At the point of remittance into the CBN-NNPC domestic crude oil (Naira) accounts by NNPC, NNPC based remittance on another valuation report that used a revised pricing option</p>			
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		which was often lower than the initial valuation. By implication, the pricing methodology was not consistently applied leading to a revenue loss of \$90.176 million . Therefore, Nigeria failed to realize revenues from crude sales in a manner consistent with market conditions with respect to sales to NNPC and its subsidiaries.				
11	Federation Export Crude Sales i. Total crude oil lifting volume	The total lifting profile for the federation for the period under review 2015 was 780.429 million barrels out of which 40.15% (i.e. 313.336 million barrels) was NNPC entitled lifting. NNPC under lifted 15.317 million barrels (i.e. 313.336 million barrels indicated by 2015 NNPC-COMD lifting profile from aggregated streams indicated what NNPC lifting was as against 298.018 million barrels indicated in the COMD lifting profile by beneficiary accounts). See Section 6.2 of the Report for more details.	Under lifting of Export Crude Sale by NNPC is capable of causing huge financial loss to the Federation as un-lifted barrels may be diverted and unaccounted for.	NNPC should lift fully the allocated barrels and any under-lifted should be adequately declared with full documentation.	NNPC did not under lift its equity by 15.317 million barrels, this is the volume lifted by NNPC on behalf of NPDC from Brass Terminal as its equity from the divested NAOC JV.	NNPC, in its submission, did not indicate that the 15.317 million barrels included in federation lifting profile belongs to NPDC. However, NNPC should always reconcile the NNPC COMD lifting profile from aggregated streams with the NNPC COMD lifting profile by beneficiary accounts, and disclose the reasons for discrepancies. Furthermore, there was inconsistency

						between the COMD lifting profile by beneficiary accounts and the COMD actual lifting/sales profile. See Section 6.2 of the Report for more details.
CBN						
12	NESS FEES	<ul style="list-style-type: none"> a. CBN used PIA and MEA's Report to populate NESS template b. Based on CBN available record, a total of 88 oil companies with Nigerian Export Proceeds Form Number (NXP Number) exported 544,871,473 bbl. of crude oil with FOB value of \$28,707,865,543. The concerned companies paid a NESS fee of ₦4,220,387,234 as against ₦ 6,690,155,992 payable, leaving an outstanding liability of ₦ 2,469,768,758 payable by these companies. c. A further review of CBN available record showed that, a total of 39 oil companies have no NXP Number. The 39 companies exported 231,712,199 bbls 	<ul style="list-style-type: none"> • Non-availability of Bank Statement by CBN has made validation and reconciliation difficult for the Auditors • The non-availability of NXP number hinders efficient tracking of payments. 	<ul style="list-style-type: none"> i. For subsequent Audit, CBN should populate NESS Fee Template using the bank statements. ii. New Ness Fee templates should be designed for other stakeholders in the NESS scheme chain such as Department of Trade, Federal Ministry of Finance, Pre-Shipment Inspection Agents (PIA) and Monitoring and Evaluation Agents (MEA). iii. Collecting Banks should ensure that no exporter's form is processed without NXP Number. iv. Future audit should 	N/A	The outstanding amount should be recovered from the concerned companies

		of crude oil with a FOB value of \$11,885,814,632 . They paid a NESS fee of ₦587,396 against ₦2,793,767,675 payable, leaving an outstanding liability of ₦2,793,180,279 .		cover transactional cost for running the NESS Scheme.		
13	Unclassified entries	a. There were numerous unclassified payments in CBN templates which could not be substantiated by CBN, due to incomplete narrations i.e Gas revenue \$22,555,946.58 , PPT \$1,524,579,941.00	Non-or wrong classification of payments by CBN has made reconciliation difficult and it is capable of causing financial loss to the Federation.	Efforts should be made by CBN to direct banks to ensure that when payments are to be transferred there should be adequate narration. Similarly, monthly reconciliation should be carried out by the bank and relevant agencies.	N/A	CBN should ensure proper classification and regular reconciliation of payments with covered entities.
NAPIMS						
14	Non-Cash Call Expenditure	<ul style="list-style-type: none"> • \$597,861 million being non-cash call expenditures were not budgeted for nor were they tied to any specific JV operator or projects. • The non-Cash Call transactions of \$597.86million were funded from both the CBN/NNPC JP Morgan Chase Cash Call Dollar Account and CBN/NNPC JV Naira Cash Call account. • The sum of \$238.058 	Incurring Non-Cash Call expenditure from Cash Call Account may lead to double payments and fund diversion by the operators of the account	i. Subsequent expenditures should be funded from NNPC overhead budgets and not the cash call budget. ii. Payment for security expenditure amounting to US\$307.83million made to Nigerian Intelligence Agency and Nigerian Navy should be discontinued forthwith	N/A	Cash Call account should be strictly used for Cash Call Expenditure and all other expenditure should come from NNPC normal operational expenses as per the budget.

		million was collected as 3% Administrative Fee by NAPIMS.		and future request for security funding for oil and gas facilities should be funded from the National Defense budget so as not to put unnecessary pressure on cash call cash flows.		
15	NAOC and SPDC Divestment of Assets to NPDC	• There is an outstanding liability of \$1.954billion to be paid by NPDC	This has led to loss of revenue to the federation	The outstanding amount should be paid, within the time frame given.		
NDDC						
16	NDDC Levy	a. The total contribution from the covered entities for the year under review was \$387,620,811 b. There was an unreconciled sum of ₦175,000,000 (\$890,902) being payment made by Sterling Oil Exploration. The audit revealed that Sterling paid the naira equivalent of \$890,902 , which was not traceable to NDDC bank account	Lack of regular reconciliation of NDDC Levy payments with companies may lead to huge financial loss to the Federation	i. Sterling and NDDC should reconcile the identified difference of \$890,902 ii. NDDC should embark on an aggressive revenue recovery drive to recover outstanding levies from entities in line with its establishment Act.	N/A	Regular reconciliation, aggressive recovery of outstanding levies is absolutely necessary.
DPR						
17	Signature Bonus	i. For the period under review, payments totaling \$902,722,250 which were made by companies as premium	Lack of regular reconciliation of Signature Bonus payments is capable of causing huge financial loss to the Federation	i. there should be proper classification of payments. ii. The next audit should follow up on reconciling	N/A	Atlas should Reconcile all outstanding payment

		<p>for license renewals were credited into the signature bonus account.</p> <p>ii. An unreconciled difference of \$3,000,000 was observed from payments made by EEPN(OE)L and Atlas.</p>		the difference in signature bonus	
18	Royalty Gas	<p>I. The audit established an outstanding liability of \$32,568,142 for Royalty Gas against 8 companies namely; Eroton, AITEO, SNEPCO, NPDC, Frontier, Pan-Ocean and SEPLAT</p>	This has led to revenue loss	DPR should recover this outstanding amount.	
19	Royalty Oil	<p>a. Differences in oil royalty computation by AITEO and MONI PULO</p> <p>b. The outstanding liability for Royalty Oil was \$324,925,064 which was as a result of under assessment or late payment</p> <p>c. Unresolved operational depth of SNEPCO which result to variance in royalty calculation by the entity and DPR</p>	If the differences are not promptly reconciled, the Government may lose revenue	<p>It is recommended that an approved “automated royalty computation template” be used by both the DPR and the auditor at all times. In addition, the DPR should always disclose the price used in the computation of royalty in the royalty reconciliation sheet signed with the entity</p> <ul style="list-style-type: none"> • This issue should be resolved, whereby both party hold a tripartite 	<p>N/A</p> <p>Regular reconciliation is necessary</p>

				meeting to address the lingering issue.	
20	Gas Flare Penalty	<p>VII. the following entities; Allied Energy, Atlas, Britannia U, New Cross, Prime E&P and Sheba E&P did not provide gas production data</p> <p>VIII. The current gas flared penalty charge at 10/1000mscf has not served as a deterrent to gas flaring by companies. If the FEC approved rate of 3.5\$ per 1000mscf had been applied in 2015, gas flared penalty would have been</p> <p>IX. \$1,111,252,625 as against the actual collection of \$ 12,683,078, meaning an extra \$1,098,569,547 would have accrued.</p> <p>X. The outstanding gas flared liability was \$6,230,267</p>	<p>- The gas flaring penalty is not sufficient deterrent to the companies to stop flaring Gas</p> <p>- The Federal Government is losing huge revenue on the Gas Flared</p>	<p>i. The new policy on minimal flaring as approved by the Federal Executive Council should be fully implemented, this will lead to a reduction in pollution rate and enhance government revenue from increased utilization of gas hitherto flared.</p> <p>ii. The new policy on minimal flaring as approved by the Federal Executive Council should be fully implemented, this will lead to a reduction in pollution rate and enhance government revenue from increased utilization of gas hitherto flared.</p> <p>ii. Covered entities should be encouraged to provide relevant data as at when due to ease reconciliation.</p> <p>v. DPR should ensure</p>	N/A

			<p>that all applicable gas flared liabilities are paid by the operating companies</p> <p>v. Government should enforce the new gas flared regime to deter gas flared on the one hand and promote investment in gas utilization and infrastructure development</p>			
FIRS						
21	Pioneering Status for: Shoreline Natural Resources, Neconde Energy, ND Western, Platform, Newcross, Elcrest, ORIENTAL, NDPR	<ul style="list-style-type: none"> 8 entities were granted tax holidays for five (5) years straight instead of the normal three (3) years at first instance, and thereafter additional two (2) years after satisfying conditions set by the NIPC for the first grant. 	<p>This will lead to revenue loss</p>	<p>i. In order not to abuse the process, NIPC should adhere to the rules and guidelines on granting companies pioneer status.</p> <p>ii. NIPC should collaborate with FIRS on the update of companies granted pioneer status.</p>	N/A	There should be strict adherence to the IDA Act

				iii. Only qualifying companies should be granted pioneer status relief and not bought over companies.		
22	PPT Fiscal Pricing Liability by 4 Entities	• the Crude oil fiscal value shows a liability of \$3,414,400	This will lead to revenue loss	i. All associated liability should be recovered	N/A	
23	Non-Payment of PPT by indigenous oil and gas companies	• Most of the indigenous operating companies default in the payment of PPT payments	This will lead to revenue loss	i. FIRS should carry out tax audit of these defaulting companies	N/A	
24	Lack of Effective and Efficient National Pipeline Grid.	i. Vandalization of oil pipeline (both Crude and Refined Oil) at trans-forcados,, Brass, Membe creek, Bonny and Escravos. ii. Rampant oil theft. iii. Incessant disruptions of oil production. iv. Non-functional refineries. v. Congestion of oil tankers at Apapa tank farm and attendant risks.	Lost of revenue and environmental degradation	i. The national pipeline grid should be upgraded and policed adequately using state of the art technology such as Distributed Acoustic Sensing (DAS) and miniature drones.	N/A	
25	NNPC acting as a player and regulator in the oil and gas sector.	i. NNPC not asserting its position with JVs especially in profit sharing thereby causing huge loss for the	i. This has led to revenue loss and inefficient resource management	i. Unbundling and restructuring NNPC into a more	N/A	

	<p>Federation</p> <p>ii. Discrepancy in COMD and DPR Records</p> <p>iii. NNPC not asserting its position with JVs especially in profit sharing thereby causing huge loss for the Federation. This is evident with NNPC not signing off production records bearing in mind they are expected to protect government interest.</p>	<p>ii.</p>	<p>accountable and transparent organization.</p> <p>ii. There should be delineation of function of regulatory and commercial activities of NNPC.</p> <p>iii. The Federal Government should establish a new organization that will be saddled with the responsibility of monitoring stakeholders in oil and gas industry.</p> <p>iv. There should be replacement of OPAs/SWAPs with direct-sales and direct-purchase.</p> <p>v. Replace cash call with introduction of 3rd</p>	
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				party financing.	
26	Petroleum Industry Bill (PIB) 2017	<p>The PIB was passed by the Senate on 26th May 2017 and yet to be passed by the lower chamber. A review of the bill shows the following findings:</p> <ul style="list-style-type: none"> i. Issue of Health, Safety and Environment is conspicuously missing. ii. Petroleum Equalization fund was provided for in the bill but the Management of the Fund was not adequately discussed. iii. The responsibility of regulating both Upstream and Downstream was combined and given to Nigeria Petroleum Regulatory Commission 	<p>The passage of the bill without taking into considerations these salient issues will result to future agitation by the Niger Delta.</p>	<p>i. Before the Bill is finally passed in to law by both legislative chambers, the issues of environment should be adequately addressed in view of recent happenings in Niger Delta and other oil producing areas.</p> <p>ii. The Management of Petroleum Equalization Fund should be given to private sector as done with pension fund.</p> <p>iii. There should be separate regulatory authorities for Upstream and Downstream as it is done in Ghana</p>	N/A
	Inconsistent production, lifting	i. The audit revealed that there are inconsistencies in the record	This is an indication of inefficient system and loss	i. DPR should carry out	N/A

records by DPR, COMD and Companies	maintained by COMD, DPR and the Companies. A review of NNPC, DPR and Company records shows a variance in the production record by stream. While NNPC record indicate that the total production in 2015 was to 780,368,299 bbls, DPR record indicate a total of 780,830,568 bbls and company's record indicate 771,197,855 bbls. ii. The company's position is the sign off position which is in most cases less than their internal production records as used in their filling with FIRS.	of revenue.	real time monitoring of the system. ii. COMD should be involve in reconciliation sign off iii. Reconciliation should be done timely		
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